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TAX INCENTIVE PROGRAMS

An Evaluation of Selected Tax Deferrals, Exemptions and Credits for Manufacturers

Distressed Area Sales Tax Deferral/Exemption

New Manufacturer Sales Tax Deferral

Distressed Area B&O Tax Jobs Credit

September, 1996

State of Washington

Department of Revenue
Len McComb, Director

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WASHINGTON STATE DEPARTMENT OF REVENUE

Len McComb, Director

Research Division

September, 1996

STATE OF WASHINGTON
DEPARTMENT OF REVENUE
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September, 1996

TO: The Honorable Nita Rinehart, Chair
Senate Ways and Means Committee

The Honorable Brian Thomas, Chair
House Finance Committee

FROM: Len McComb, Director

SUBJECT: REPORT ON TAX INCENTIVE PROGRAMS

During 1994, Engrossed Second Substitute Senate Bill 6347 was enacted. Section 10 of the bill required the Department to evaluate certain tax incentive programs which were established in 1985 and 1986. These incentives principally relate to manufacturing industries. They include the sales tax deferral/exemption for distressed areas (RCW 82.60), the now repealed sales tax deferral for new manufacturing firms (RCW 82.61) and the B&O tax jobs credit (RCW 82.62).

In addition to providing statistics on the utilization of these incentives, we've attempted to identify the impact these programs have had on the local and overall state economy, as requested by the statute. Of course, it is always somewhat tenuous to ascribe outcomes to a specific tax program, since it is impossible to know what would otherwise have occurred in its absence. Further, a variety of other programs, such as the 1995 sales tax exemption for manufacturing machinery, are intended to encourage investment in Washington, and it is difficult to isolate the effect of specific incentives.

Approximately 776 firms have benefited from the three tax incentive programs. According to the applicants, the total investment for participating projects amounts to $3.2 billion. From their inception on July 1, 1985 through December 31, 1994, $128.8 million of state and local sales tax was eligible for deferral; in addition the amount of outright revenue loss due to exemptions and credits is estimated at $100 million. Applicants estimated their projects would add 23,348 new jobs; our analysis indicates that only 5,997 net new jobs (over and above what the participants could have been expected to add in the absence of the incentive programs) can be attributed to the incentives.

Despite significant participation in these programs, the net impact on local economies has not been substantial. Counties which have traditionally been distressed largely remain so. Some diversification has resulted but most manufacturing investment remains concentrated in urban, nondistressed areas. Marginal improvement in manufacturing employment and county unemployment rates has occurred in some distressed areas but others have worsened relative to the state average.

The analysis attempted to identify whether these programs result in a long-term net increase in tax revenues. "Pay-back" periods, in which the secondary growth in tax revenues associated with the investment and new jobs offset the initial tax deferral or exemption, were estimated. However, this analysis looked only at the successful participants whose job growth could be matched with employment records and who remained in business for at least three to five years after the project was completed. Thus, the results cannot be extrapolated to the entire tax incentive program. Nonetheless, the analysis indicates the following pay-back periods:

Distressed area deferral	-	7 to 10.4 years
Distressed area exemption (since 1994)	-	11.9 to 12.4 years
B&O jobs credit	-	at least 10.6 years
Distressed area deferral & jobs credit	-	5.5 to 6.3 years
New manufacturer deferral	-	3.8 to 4.3 years

Pursuant to statute, in the next several years we will be preparing similar analyses of the tax deferral for high technology firms, the B&O credit for R&D investments and assisting on the analysis of the sales tax exemption for manufacturing machinery.

Each member of your committees, as well as your staff, will receive a copy of this report. I trust you will find the report to be useful in reviewing the results of these tax incentives. If you have further questions, please feel free to contact me directly at (360) 753-5574 or you may contact Don Taylor at (360) 753-5569.

cc: Governor Lowry
Don Taylor

TAX INCENTIVE PROGRAMS

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Chapter One
EXECUTIVE SUMMARY

This report is submitted pursuant to 1994 legislation which asked the Department of Revenue to evaluate three tax incentive programs enacted in the mid-1980s which were designed to encourage manufacturing investment in Washington. Two sales tax deferral programs, for manufacturing expansion in distressed counties and for new manufacturers in any county, were adopted in 1985; these were followed the next year by a B&O tax credit for the creation of new manufacturing jobs.

This chapter contains a synopsis of the overall conclusions of the study, as well as a description of the source of the data and procedure utilized in evaluating these programs.

Findings

The two sales tax deferral programs have resulted in $128.8 million of state and local sales tax being approved as eligible for deferred payment through calendar year 1994. As of June 30, 1996, the amount of outstanding deferred taxes remaining to be repaid is $106.5 million. The direct revenue loss for the three programs (amounts directly exempted under provisions of the deferral programs, amounts deferred but unpaid by firms that subsequently went out of business and the B&O tax credit) now totals $100 million in state and local revenues. Other information relating to participation in the programs is summarized below.

Number of initial applications:	
Distressed area deferral/exemption	532
New manufacturer deferral	181
B&O jobs credit	566
Number of successful participants:	
Distressed area deferral/exemption	351
New manufacturer deferral	99
B&O jobs credit	326
Total projected investment ($ in millions):	
Distressed area deferral/exemption	$1,368
New manufacturer deferral	$1,096
B&O jobs credit	$ 738

Anticipated new jobs (by applicants):	
Distressed area deferral/exemption	11,089
New manufacturer deferral	4,654
B&O jobs credit	7,605
Estimated net new jobs (by DOR):	
Distressed area deferral/exemption	3,173
New manufacturer deferral	2,249
B&O jobs credit	575

There is a major difference in the job creation estimates achieved by the programs. Applicants indicated their participation in the tax incentives would produce investment totaling $3.2 billion which would result in 23,348 new jobs. The Department's records do not reflect the amount of investment which actually took place or the number of additional jobs which remain filled. However, based on matching of actual employment records, the Department has estimated that fewer than six thousand net new jobs, or barely one-quarter of the projected jobs, can be attributed to participation in the tax incentive programs (over and above the experience of similar, nonparticipating firms in the same industries). Some of the reasons for the indicated lower level of job creation are:

- double counting of jobs by firms that applied for both distressed area programs.
- the large number of firms whose applications were denied (126) as not meeting statutory requirements or whose certificates were revoked (150) for not complying with program requirements.
- the significant number of participants that went bankrupt or otherwise ceased operations (94).
- participants may have simply transferred existing jobs from other facilities to the new plant.
- new jobs may have initially be added but subsequently been eliminated as the new facilities achieved greater efficiency of operations.
- declining product demand in some industries may have forced some participants to operate at lower levels than originally anticipated.

Analysis of job growth for participating firms whose employment records could be matched with Employment Security Department data indicates initial growth that is significantly higher than the same industry average for the state or the nation. However, by the fourth and fifth year

following project completion negative growth rates were common for all three programs. This indicates that the initial job stimulus is generally not sustained for very long.

Further analysis of the participating industries, compared with similar firms in the state and nationally, leads to the conclusion that the distressed area program tended to attract investment by firms in industries which were already in economic difficulty. Thus, it may not be surprising that many of the distressed area deferral/exemption firms failed to complete their projects or sustain high employment increases.

In contrast, participants in the new manufacturer program seemed to be reflective of industries which were experiencing higher growth rates. Since these participants were largely new to Washington, it is plausible that they were going to expand anyway, but the existence of the sales tax deferral may have helped convince them to locate in this state, rather than elsewhere.

The study attempted to analyze the period of time required for the amount of tax deferred or exempted to be offset by taxes on the overall increased economic activity resulting from the investment. This comparison was based on only those "successful" firms which remained in business at least three to five years after completion of the projects. Therefore, the calculated "pay-backs" are not reflective of all firms which applied and should not be used to measure the outcome of the overall tax incentive program. The results indicated a period of from 7 to over 10 years was necessary for typical firms in the distressed area deferral to begin contributing a net increase in tax revenue. If they were also in the jobs credit program, then the pay-back period dropped to about 5.5 to 6.3 years. The new manufacturer program involved only a deferral of tax with no outright exemptions and these firms generally stimulated greater net employment growth; therefore their pay-back period was in the range of only 3.8 to 4.3 years.

The statute directing the study asked for an evaluation of the impact the programs had on research and development investment, as well as the introduction of new products. The only feasible method of obtaining such information was to survey the participants. Responses indicated that about 38 percent of the distressed area program participants and 32 percent of the new manufacturer firms did increase R&D spending. Because of the inadequate level of response, an estimate of the total R&D investment was not attempted.

New product lines were indicated by one-half of the distressed area firms and 42 percent of the new manufacturer participants. New product lines were most common for firms in the lumber and wood products industry. New products are also related to the issue of economic diversification. A listing near the end of Chapter 7 shows new manufacturing activities in selected counties which was not evident before the programs were established.

It is, of course, impossible to determine how much of the investment and job creation would have otherwise occurred in the absence of the tax incentive programs. Nonetheless, Chapter 7

looks at county level indicators to see if economic performance has improved. The comparisons are complicated by the fact that the new manufacturer program could be utilized in any county, whereas the other two were limited to specified areas.

The major conclusion from the county data is that manufacturing employment and wages grew at lesser rates in distressed counties. Summary findings are shown below.

Growth in manufacturing employment from 1985 to 1994 (Table 7-2):

22 distressed counties	-	7.7 percent
17 other counties	-	19.6 percent
statewide total	-	17.4 percent

Increase in average manufacturing wages from 1985 to 1994 (Table 7-4):

22 distressed counties	-	23.7 percent
17 other counties	-	63.9 percent
statewide total	-	59.1 percent

Further, the gap between distressed and more prosperous counties may be widening (Table 7-5). In 1985 the average manufacturing wage in the 22 distressed counties ($23,431) was only 86 percent of the average for the other 17 counties ($27,211). By 1994 the distressed county average ($29,381) had fallen to 79 percent of the average for the other 17 counties ($37,284). Similarly, the share of total manufacturing employment represented by nondistressed counties has risen slightly over the ten year period from 81.2 percent to 82.7 percent (Table 7-7). The distressed county share has dropped commensurately by 1.5 percent.

Unemployment rates in Washington have improved significantly over the ten year period. In 1985 the statewide average was 10.9 percent, whereas by 1994 it was down to 6.8 percent. However, of the 22 traditionally distressed counties only nine had improved their unemployment rate relative to the statewide average. The other 13 counties experienced a lower rate of reduction in their unemployment rates than did the statewide average.

Despite signs of some positive economic trends in distressed areas, their predominate reliance on the timber industry, which continues to reflect declining employment, and the food products industry, with largely seasonal activity and low wages, implies that these areas will continue to lag the rest of the state. Compounding the differential is the fact that much of the investment over the decade by high growth industries such as aerospace, computer software, high-technology, and tourism has taken place in the urban, nondistressed counties. Basically, the distressed area incentives tended to attract firms which were in industries that were declining,

whereas the new manufacturer program was utilized to a higher degree by firms that were in growth industries.

In conclusion, there may be structural problems with the local economies of those counties which have been traditionally distressed. Although the tax incentives have helped individual firms, the resulting economic benefit for these areas has apparently not been sufficient to reverse the performance of the county as a whole. Some diversification has resulted and there is evidence of new manufacturing activities in distressed areas which did not exist prior to 1985. However, the impact on employment in most areas has been marginal.

Certainly, the amount of investment and the number of new jobs associated with firms that participated in the tax incentive programs is not insignificant. How much of this investment would have otherwise taken place is impossible to determine. But the programs are evidence of the state's policy toward economic development. Together with the more traditional factors which influence business location -- location of raw materials and markets, a skilled work force, sound infrastructure including good transportation systems, and an overall high quality of life for the region -- these programs help to encourage investment and job creation in Washington.

Methodology

COMPILATION OF STATISTICS

As noted in Chapter 3, the Department maintains spreadsheets that list participants in each of the three deferral programs. Data on firms that applied and were granted certificates to participate in the three tax incentive programs were compiled. Also, employment figures were obtained directly from the Employment Security Department. These were analyzed to verify the original estimate of new jobs submitted by the applicant and to learn more about the duration of these jobs. Finally, a variety of other data were analyzed to assess economic performance at the county level. Chapters 5, 6 and 7 present statistical information on the impact these programs have had on state and local government revenue collections, on the participating firms and on the state economy in general.

SURVEY OF PARTICIPANTS

Companies participating in the Distressed Area Sales Tax Deferral/Exemption, the Business and Occupation Tax Jobs Credit, and the New Manufacturer Sales Tax Deferral were surveyed in August of 1996 (see Appendix 2). The firms were asked to provide information which could help assess the effectiveness of the programs on job creation, measure research and development

expansion and product line diversification, and determine the importance of the program benefits in the business decision making process.

A random sampling technique was not utilized in this survey effort. Instead, an attempt was made to represent the distribution of industries within participating counties. For this reason, the sample set was selected using program enrollment, industry, location, and ability to contact as selection criteria. There were approximately 776 certificates issued to firms which participated in the three incentive programs. The beginning sample set was 20 percent of the total certificates issued; it also represented the distribution of participating industries among the counties. The initial low response rate required the addition of a number of companies. A final 35 percent sample population, comprising 273 companies, was selected. The survey was distributed by fax, following a telephone conversation notifying the contact person to expect the questionnaire. Completed surveys were received from 114 companies, resulting in a 42 percent response rate for those surveyed.

The results of the sample are discussed in Chapter 6. However, because of inadequate response in all counties and for all types of firms, the sample results do not accurately represent all types of companies and their locations. Therefore, the results are not reflective of the entire population of all certificate holders.

Chapter Two
DESCRIPTION AND HISTORY OF TAX INCENTIVE PROGRAMS

Distressed Area Sales Tax Deferral/Exemption Program (Chapter 82.60 RCW)

This program was enacted in 1985, effective May 10, 1985, and was specifically designed to encourage economic development in economically distressed communities. Originally, the program provided a deferral of retail sales/use tax for machinery or plant construction for any manufacturing or R&D firm which located or expanded in certain counties. With the 1994 legislative changes, the program became less of a deferral and more of an outright exemption in most situations. Further details on the history of this tax incentive are provided below.

ORIGINAL PROGRAM: 1985-1993

To qualify for the program during the early years, eligible firms:

Had to be engaged in manufacturing, R&D, or a computer-related service business;

Had to be located in an "eligible area," defined as:

Counties with an average unemployment rate during the preceding three years exceeding the statewide average by at least 20 percent, or

Metropolitan statistical areas with an average unemployment rate during the preceding year exceeding the statewide average by 20 percent (added in 1988);

Had to create one new full-time employment position for every $300,000 of capital investment on which taxes were deferred ($200,000 prior to June 1986);

Had to invest in new machinery and equipment; AND

Had to construct a new building, lease a newly-constructed and previously unoccupied building, or expand an existing building with cost in excess of 25 percent of the value of the plant complex prior to the improvement.

The business was required to apply for the deferral before initiating construction or acquiring machinery and equipment. Qualifying businesses received a certificate which entitled them to purchase plant machinery and equipment and construction labor and materials without payment of retail sales tax.

For deferrals granted prior to July 1, 1994, the tax was deferred for three years following completion of the project and paid back over a five-year period (same repayment schedule as the "New Business" deferral program). However, the tax on construction labor did not have be repaid for deferrals granted after June 11, 1986, in effect constituting a direct exemption for sales tax on the labor portion of eligible construction.

The deferral program essentially represented a sales tax exemption for construction labor and an interest-free loan in the amount of the sales or use tax due on construction materials and plant machinery and equipment.

1994 CHANGES

As a result of Chapter 1, Laws of 1994 (Engrossed House Bill 2664), the following changes were made for applications approved on or after July 1, 1994:

Deferred taxes need not be repaid if all program requirements were met, effectively changing the deferral into a complete exemption.

The amount of investment on which taxes could be deferred was increased from $300,000 to $750,000 for each new full-time employment position created.

There was no longer a requirement to construct a new building or lease a newly-constructed building in order to qualify. A business could qualify by purchasing or leasing an existing structure.

Cogeneration projects that were both an integral part of a manufacturing facility and owned at least 50 percent by the manufacturer could qualify for deferral. (Projects undertaken by light and power businesses do not qualify.)

The definition of "eligible area" was expanded to include any town with a population of less than 1,200 in a county designated as a timber impact area. There are now five such small cities: Nooksack and Sumas in Whatcom County and Darrington, Gold Bar and Woodway in Snohomish County.

Businesses located in a county adjacent to a distressed county, or in a community empowerment zone (CEZ) or county containing a CEZ, could qualify if they filled at least 75 percent of the new qualified employment positions with residents of the neighboring distressed county or the CEZ. There are currently five community

empowerment zones located in the following cities: Seattle (2); Tacoma, Bremerton and Yakima.

The Governor was authorized to designate a county as an "eligible area" for a maximum of three years if, as a result of natural disaster, military base closure, or mass layoff by a business, the projected unemployment in the county during the ensuing 12 months would exceed the statewide average by at least 40 percent.

The expiration date of the program was extended to July 1, 2004.

1995 CHANGES

2ESSB 5201 made the following changes, effective July 1, 1995:

Eliminated the requirement that expansion or renovation of an existing facility increase its value by at least 25 percent. Any expansion or renovation for the purpose of increasing floor space or production capacity can now qualify.

Eliminated the jobs-creation requirement for projects locating in most distressed areas. However, projects located in non-distressed counties containing a community empowerment zone and projects located in non-distressed counties adjacent to a distressed county still had to create one new full-time job for each $750,000 of investment. (The requirement to hire at least 75 percent of the work force from the CEZ or adjacent distressed county remained unchanged.)

Cogeneration projects were eligible for deferral to the extent they are used to generate power for on-site consumption.

Eliminated the requirement that a cogeneration facility be 50 percent owned by the manufacturer. Cogeneration projects were made eligible for deferral to the extent they are used to generate power for on-site consumption.

Even if the deferral was disallowed because program requirements were not met, the taxes need not be repaid on machinery and equipment that would have otherwise been exempt at the time of sale or first use, i.e. pursuant to the new sales tax exemption for machinery and equipment delivered or first used on or after July 1, 1995.

Taxes deferred on selected machinery and equipment for lumber and wood products industries did not have to be repaid, even machinery and equipment delivered or first

used prior to July 1, 1995. This exemption applied only to deferred taxes in distressed areas that had not yet been repaid.

1996 CHANGES

Chapter 290, Laws of 1996 (HB 2337) amended the definition of "eligible area" to include counties whose median household income is less than 75 percent of the state median household income for the three prior years. The change, effective June 6, 1996, added Asotin and Whitman counties to the list of eligible areas.

With this change, every county in the state now potentially qualifies for the distressed area deferral/exemption program under one eligibility standard or another. However in some cases, 75 percent of the new qualified employment positions must be filled with residents of a community empowerment zone or an adjacent county which is an eligible area in its own right.

The Department's administrative rule, WAC 458-20-24001, contains additional details on the implementation of this program.

COUNTY ELIGIBILITY

The distressed area sales tax deferral/exemption program has experienced some change in the eligibility requirements as outlined above. Because of the sub-county level eligibility (timber impact communities and community empowerment zones), virtually any area of the state could now qualify for the program, if the employment criteria are met, e.g., hiring workers who reside in adjacent distressed counties or in empowerment zones.

Looking only at county-wide eligibility, counties can now qualify as distressed according to four criteria:

- County unemployment rate averaged over the previous three years exceeds the statewide average by more than 20 percent (1985);
- Unemployment rate in metropolitan statistical area exceeds the statewide average by more than 20 percent for the latest year (1988);
- Designation by the Governor due to natural disasters or anticipated large employee lay-offs (1994); or

- County median household income averaged over the previous three years does not equal 75 percent of the statewide average (1996).

There are fourteen counties which have never qualified as distressed under a county-wide criterion: Clark, Garfield, Island, Jefferson, King, Kitsap, Lincoln, Pierce, San Juan, Snohomish, Spokane, Thurston, Walla Walla, and Whatcom. Conversely, the following eighteen counties have qualified continuously since 1985:

Chelan	Grant	Pacific
Clallam	Grays Harbor	Pend Oreille
Columbia	Kittitas	Skagit
Cowlitz	Klickitat	Skamania
Ferry	Lewis	Stevens
Franklin	Okanogan	Yakima

The remaining seven counties have been in and out of the program as follows:

Adams - Qualified continuously since 1986.

Asotin - First qualified in 1996, due to median household income criterion.

Benton - Qualified from 1985-1987 due to countywide unemployment rate.
Qualified in 1988 due to MSA unemployment rate.
Qualified from 1989-1991 due to countywide unemployment rate.
Did not qualify from 1992-1995.
Qualified in 1996 due to MSA unemployment rate.

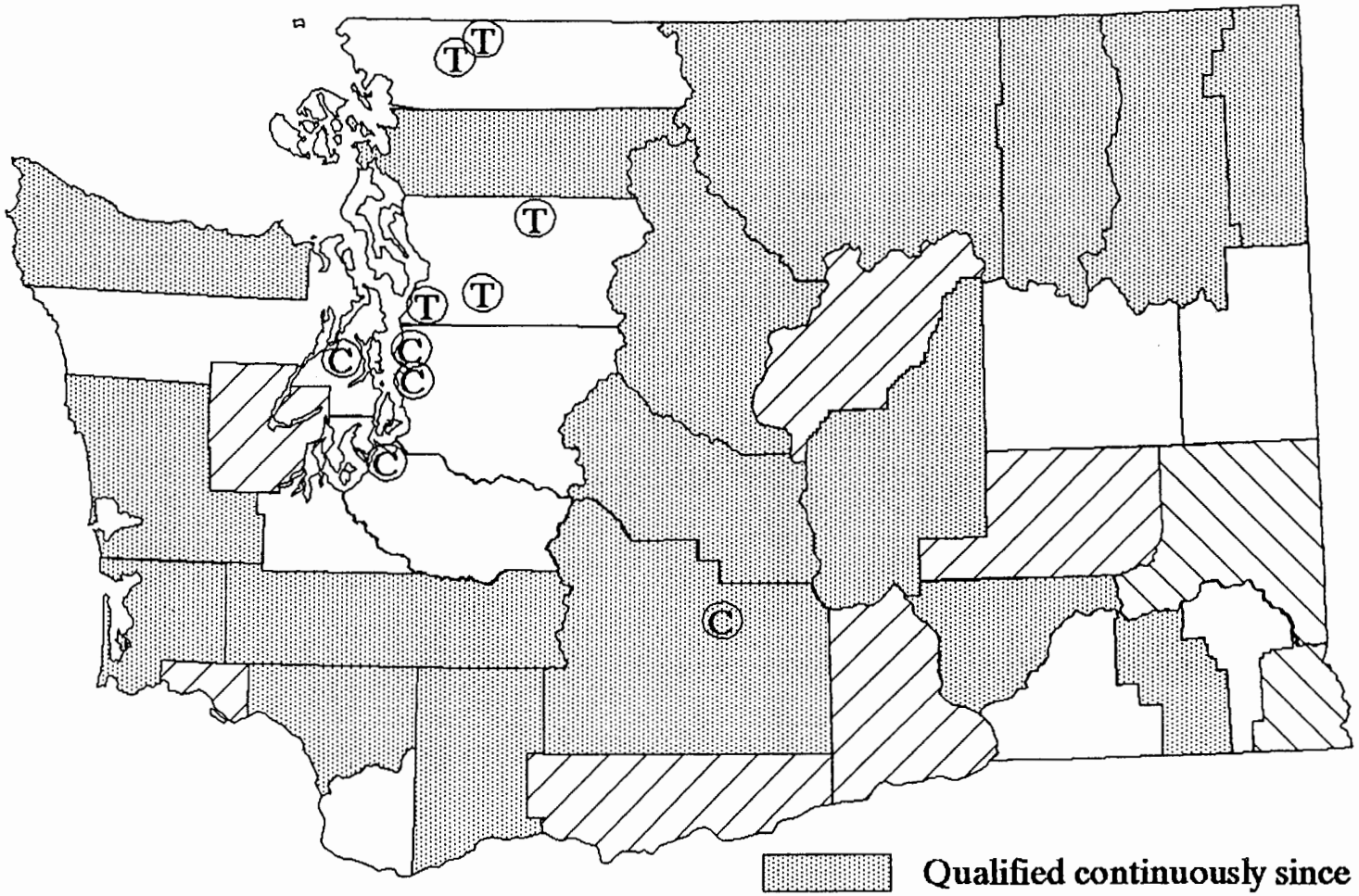
Douglas - Qualified from 1988-1994 due to countywide unemployment rate.

Mason - Qualified in 1985 due to countywide unemployment rate.
Did not qualify from 1986-1990.
Qualified from 1991-1996 due to countywide unemployment rate.

Wahkiakum - Qualified from 1985-1993 due to countywide unemployment rate.
Qualified from Aug. 1994 to Aug. 1996 due to Governor's designation.

Whitman - First qualified in 1996, due to median household income criterion.

Eligibility for Distressed Area Sales Tax Deferral/Exemption Program



Qualified continuously since 1985

Qualified for most years since 1986

First qualified in 1996

Ⓣ Timber impact areas (5)

Ⓒ Community empowerment zones (5)

Note: Since 1994 counties that didn't otherwise qualify could do so under the "adjacent county" criterion.

New Manufacturer Sales Tax Deferral Program (Chapter 82.61 RCW)

This program was enacted in 1985 and was terminated, effective June 30, 1995, by the 1995 Legislature. The intent of the original program was to encourage new manufacturing and research and development firms to locate in Washington. The business could locate anywhere in the state but was required to meet all of the following requirements:

Must be engaged in manufacturing or research and development (R&D);

Must be a "new business" (not engaged in manufacturing or R&D activities in this state as of June 14, 1985);

Must invest in new machinery and equipment; AND

Must either construct a new building or lease a newly-constructed building.

The business was required to apply for the deferral before initiating construction or acquiring machinery and equipment. Qualifying businesses received a certificate which entitled them to purchase plant machinery and equipment and construction labor and materials without payment of retail sales tax.

The sales/use tax was deferred for three years and paid back over a five-year period, according to the following schedule:

Repayment Year	Amount Repaid
1	10%
2	15%
3	20%
4	25%
5	30%

In effect, the deferral constituted an interest-free loan in the amount of the sales or use tax due on the project which allowed the firm to postpone payment of the tax until, presumably, the project was completed and the firm had an opportunity to become profitable.

The program was previously scheduled to expire July 1, 1998. Under Chapter 3, Laws of 1995 (2ESSB 5201), the expiration date was advanced. Under the termination law applications had to be filed by June 30, 1995, and construction of the project was required to start before December 31, 1995. Part of the rationalization for early termination of the program was the complete exemption of all manufacturing machinery and equipment from sales/use tax, effective July 1,

1995. The only remaining incentive for the program was the sales tax liability for construction; it was felt that the tax benefit for the construction costs should remain only under the distressed area program or the high-tech program so that there would be some additional incentive for firms to locate in distressed areas and to encourage high technology development.

The Department's administrative rule, WAC 458-20-24002, contains additional information on this program.

B&O Tax Jobs Credit Program (Chapter 82.62 RCW)

This program was created in 1986 as an incentive for manufacturing, R&D, and computer-related service businesses to create employment opportunities in economically distressed communities. Businesses in eligible areas that create a new work force or increase an existing work force by 15 percent are allowed a business and occupation (B&O) tax credit equal to $1,000 for each new full-time employment position. The amount of the credit was doubled to $2,000 by a 1996 statute for applications approved on or after January 1, 1996. The business must apply for credit prior to hiring the new positions.

This program was initially enacted to supplement the distressed area sales tax deferral program (Chapter 82.60 RCW). Because of subsequent amendments to each, however, the definition of "eligible area" is not completely consistent for both programs. For purposes of this program, eligible areas include:

> Counties with average unemployment during the preceding three years exceeding the statewide average by at least 20 percent, and metropolitan statistical areas with average unemployment during the preceding year exceeding the statewide average by 20 percent (identical to the distressed area deferral program);
>
> Community empowerment zones. (Here, unlike the deferral program, the business must be located within the boundaries of the CEZ, but the employees may reside anywhere. In the deferral program, the business may locate anywhere in the county containing the CEZ but at least 75 percent of the qualified employment positions must be filled by residents of the CEZ.); and
>
> Sub-county areas in nondistressed counties that are timber impact areas. (Note that this program is not limited to towns with a population of less than 1,200 as is the distressed area deferral program.) This extends eligibility to three cities in Jefferson County and five cities each in Snohomish and Whatcom counties for a total of 13 cities.

Chapter 290, Laws of 1996 (HB 2337), effective June 6, 1996, amends the definition of "eligible area" to include counties whose median household income is less than 75 percent of the state median household income for the three prior years.

No more than $15 million in total credits against the state B&O tax are allowed per biennium. Further, no single business may receive more than $300,000 in credits over the life of the program. For firms with insufficient B&O tax liability, unused credits may be carried forward to succeeding years.

The program was originally scheduled to expire July 1, 1994. Under Chapter 25, Laws of 1995, First Special Session (2ESSB 5967), the program was extended to July 1, 1998.

The Department's administrative rule, WAC 458-20-240, contains additional information on this program.

Chapter Three
ADMINISTRATION OF THE PROGRAMS

The three investment incentive programs are administered by the Miscellaneous Tax Section of the Department's Special Programs Division. From their advent in 1985 until 1994, one employee was assigned to administer the programs. Since 1994 a second FTE has assisted with the job credit program.

Initial contact with taxpayers, their representatives or local economic development councils is generally through telephone inquiry. Prospective applicants typically call to obtain information concerning eligibility, program requirements and project monitoring. A significant amount of time is devoted to answering questions and sending follow-up information on the programs. A copy of the Department's informational brochure covering various tax deferrals, exemptions and credits is included in Appendix 4.

Taxpayers who wish to pursue one of the three tax incentive programs obtain an application form and return it to the Department. Copies of blank applications for these programs are contained in Appendix 3. The application is designed to supply program specific information which indicates whether the investment project is eligible, the specific location of the project, whether the firm is new to the state or is an expansion of an existing operation, elements of estimated costs of the project, and the projected start and completion dates. All applicants are asked for data on the number of current employees of the firm, as well as the anticipated number of new jobs which will be created as a result of the project. The majority of the applicants receive considerable counseling prior to submission of the application. The guidance they receive helps them supply the necessary information on the forms, and this reduces the amount of time required to process the application.

Businesses that have approved projects eligible for sales tax deferral are issued a certificate which they use to document purchases relating to the project (see Appendix 3.) The certificate contains the location of the project, the effective and expiration dates, the projected completion date, an estimate of the amount of sales tax to be deferred and the assigned certificate number. Firms may request an extension of the completion date or revision of the project costs. The certificate is presented by the firm to contractors or vendors of materials to be used for the project, in a manner similar to the use of resale certificates by wholesalers or retailers. Presentation of the certificate allows the contractor or vendor to not charge sales tax to the firm. Instead, they report such sales as a deduction (tax deferral sale) on their combined excise tax return and indicate the corresponding certificate number. Then, in four years the Department

bills the firm for the correct amount of deferred sales tax that is owed, according to the repayment schedule.

The B&O tax jobs credit process operates somewhat differently, since it does not involve the collection of sales tax by vendor. Instead, firms with approved credit applications are issued a reporting schedule which contains the approved credit limits and space for credit computations. A copy of the schedule is attached to the combined excise tax return for periods in which the credit is being claimed against state B&O tax liability. A copy of the credit schedule is shown in Appendix 3.

When the investment project is complete, the taxpayer notifies the Department. Audits of the project are then conducted by the Department's Audit Division. The purpose of the follow-up audit is to establish the correct amount of project cost and sales tax liability for deferral purposes and verify if the required number of jobs have been created for the distressed area deferral program. Also, the auditor verifies that the recipient is engaged in an eligible business activity (e.g., manufacturing, research and development, etc.), that the project is located in an eligible area (distressed county, community empowerment zone, etc.) and that the investment expenditures have been made for eligible construction and/or appropriate acquisitions of machinery and equipment. In conducting an investment project audit, the auditor does NOT perform a more comprehensive examination of all potential state excise tax liability.

The audits are reviewed by staff of the Miscellaneous Tax Section. Repayment schedules are established, the amount of tax eligible for outright exemption is determined and the qualified employment positions for the firm are monitored according to the statutory requirements that were in effect when the application was originally received.

Information has been developed by Miscellaneous Tax Section personnel to capture and summarize basic data relating to utilization of the programs. These spreadsheet files provide much of the statistical information on utilization of the tax incentive programs which is presented in Chapter Five of this report.

Verification and monitoring of employment for the distressed area program requirements is accomplished by reviewing copies of the employer's quarterly reports filed with the Employment Security Department for unemployment compensation tax purposes. The firm's full-time equivalent employment positions are verified for a base period prior to the initiation of the investment project and for each calendar quarter thereafter to establish whether or not the job requirements have been met. The calculation process for determining FTEs is based on the provisions of the Department's administrative rule, WAC 458-20-240, which pertains to the B&O tax jobs credit program. The amount of sales tax eligible for deferral/exemption and the

amount of B&O credit approved is contingent upon the determination of the firm's employment and the length of time for which the new positions have been filled.

Chapter Four
DATA LIMITATIONS

A variety of problems hampered the analysis and evaluation of the tax incentive programs. Differences in the way that employment and tax information is maintained and subsequent changes in the organization of the firms hindered the compilation of meaningful data on participation. Also, incomplete data limited the number of firms which could be included in the analysis and resulted in smaller sample sizes, thus making it more difficult to generalize about the impact of the programs. Analysts devoted substantially more time than was originally anticipated, attempting to make the data consistent and meaningful. Some of the major analytical difficulties are summarized below.

BUSINESS LOCATION

Statistics on employment are maintained by the Employment Security Department on the basis of individual locations for each registered employer. Many companies operate at multiple locations within the state and for each of these the ESD tracks employment and wages. ESD data even differentiate between headquarters offices and the firms' various operating establishments.

However, Department of Revenue data generally reflect the entire firm, rather than the individual establishments within the firm. As a result, it is not always possible to identify the particular plant or office location which is participating in the deferral/credit programs. This makes it very difficult to utilize the ESD data on employment and wages.

Some large employers with multiple locations were not included in the analysis, because it could not be determined which location or plant was included in the tax incentive programs. For example, one larger firm in eastern Washington has multiple accounts with ESD and each account has the same address. Various constraints did not allow the analysts to pursue each specific applicant and attempt to make the data for that firm comparable.

MULTIPLE PROGRAMS

Many of the applicants for the distressed area programs were eligible for both the original sales tax deferral, and recently the sales tax exemption, as well as the B&O jobs credit. However, the data that is maintained for the applicants does not always distinguish between the programs. For many participants there is a single investment amount and only one estimate of the new jobs; but the information relates to both the sales tax deferral/exemption and the B&O credit. This makes

it difficult to produce meaningful statistics on the utilization of each program separately. As a result, aggregate information on each of the programs viewed separately provides a different picture than when combined.

CLOSED ACCOUNTS

Since applying for the programs, a significant number of firms have subsequently gone out of business and these accounts could not be analyzed because ESD data were not available. These accounts had been closed for a variety of reasons ranging from bankruptcy to mergers with other firms.

UNIDENTIFIED ACCOUNTS

Some participants in the programs could not be identified or matched to ESD data. It is not known if these companies are registered with ESD or are registered under a uniform business identifier (UBI) that is different from the number which identifies the firm in Department of Revenue records.

SUCCESSOR RELATIONSHIPS

Employment changes for firms that were purchased by another company were not included in this study. When a business is purchased, their employment data are consolidated with the figures for the purchasing company. Time constraints did not allow for analysis of employment changes for the portion of the firm which was participating in the tax incentive program, as distinct from the remainder of the operations of the successor firm.

BUSINESS ACTIVITY

Classifying business activities into Standard Industrial Classification (SIC) codes can be a difficult task. It is common for a single firm to be engaged in several different activities each of which can be classified into different SICs. The Employment Security Department classifies each establishment with the firm into separate SICs, but the Department of Revenue assigns the entire firm into a single SIC which is intended to represent its principal activity.

For participants in the tax incentive programs, it was not uncommon for DOR SICs to fail to match ESD SICs. This made it difficult to determine which business locations were actually participating in the deferral/credit programs.

TERMINOLOGY

Certain terms used to administer the deferral/credit programs were not utilized consistently. For example, the terms "new business" and "new location" could be perceived differently. Therefore, the change in business activity attributable to "new" firms as a result of participation in the programs was difficult to determine. It was not clear how far the facility had to be located from an existing operation of the firm to be considered as a "new" activity.

DATA LIMITATIONS

Some of the problems arising in administration of the deferral/credit programs which hamper the collection of consistent and comparable data include the following:

- Participant information was not always available in electronic form. This necessitated a great deal of data entry work in order to compile the information.

- Participant information was not always complete. Forms were not completely filled in by applicants and this resulted in incomplete data for purposes of analysis.

- Current employment expectations by the firm were sometimes not available.

- Information obtained from audits of participants was not always sufficiently complete to evaluate the outcome of the programs. For example, data from audits did not always include the cost of the total project being constructed, so that a comparison with amounts being deferred or exempted could be made. This meant that analysis of the effects of changes in capital-labor ratios in the distressed area deferral program could not be made.

As a result of the various data limitations, the analysts were required to devote substantially more time to the study than was anticipated in order to correct the information when possible or devise alternate approaches. Further, the lack of consistent information on participating firms resulted in reduced sample sizes which, in turn, make it difficult to generalize about the success of the programs. Thus, for example, it is not possible to state precisely the number of new jobs or the amount of investment which resulted from the programs. Nonetheless, the analysis does indicate the general nature of the utilization of these tax incentive programs and is able to provide an estimate of the "pay-backs" or the time required for the resulting increased economic activity to generate tax revenues in excess of the amounts originally foregone or postponed (Chapter 6). However, the reader should be aware of the conceptual difficulties disucssed in Chapter 6, as well as the data limitations mentioned above, in making conclusions about these programs.

Chapter Five
PROGRAM UTILIZATION

Applications

As discussed in the previous chapter, it is difficult to present aggregate figures for the three programs, partly because of overlapping investment and job creation estimates indicated on the applications. Also, the extended nature of the relief for the deferrals which extends over a period of up to eight years (plus the time required for construction) makes the estimation of current revenue impacts problematical. Nonetheless, efforts have been made to allocate these impacts to specific programs and the results are indicated in this chapter. It should be noted that most of the data reflect activity through the end of calendar year 1995. However, since revisions to the figures occur continuously as more current information on projects is obtained, the program impact estimates are subject to continuous change.

Table 5-1 provides a statewide summary of the applications, while Table 5-2 contains estimates of the total investment, amount of taxes deferred or exempted and the applicants' original estimates of the new jobs which would be created. The dollar amounts and number of jobs reflect only approved projects. Therefore they exclude original estimates supplied by applicants for projects which were denied, which withdrew and which were revoked; however, they may include estimates for the projects which commenced but which subsequently were terminated because the firm went out of business. Data on participation by county are contained in Tables 5-3, 5-4 and 5-5 at the end of this chapter. (Note: the data in these tables cover through calendar year 1995, whereas some of the other information in this chapter is through fiscal year 1996.)

Since the inception of the original tax deferral program in 1985, the Department of Revenue has received 1,279 applications from companies requesting to participate in one or more of the tax incentive programs. Slightly more than 60 percent of the applications, resulting in 776 certificates, were approved and participated in the programs. Another 126 applicants were denied because they failed to meet the program requirements and 163 applicants withdrew before starting the program. Certificates were initially approved but subsequently revoked for about 150 applicants due to failure to meet ongoing program requirements. Also some 64 firms received certificates but subsequently went out of business, including 21 firms that went bankrupt and another 43 whose accounts were closed for other reasons. Denials and revocations were typically the result of failure to meet employment requirements, projects that were commenced prior to applying for the program, firms that did not perform a qualifying activity (e.g., manufacturing), or projects involving an existing structure. Further details by type of program are indicated below.

DISTRESSED AREA SALES TAX DEFERRAL/EXEMPTION

The Distressed Area Sales Tax Deferral/Exemption program, RCW 82.60, has been amended several times since its original passage in 1985. These changes result in three distinct phases of the program and the data in Tables 5-1 and 5-2 have been separated into these phases of the program.

The first phase of the program involving deferral of sales tax had 268 applicants, with 136 certificates issued on approved projects, 55 applicants withdrew from the program, 48 applications were denied, 13 were revoked and 16 either declared bankruptcy or otherwise closed their businesses. Applicants had estimated project costs of $460 million, with estimated deferred taxes of $43,623,585. They anticipated hiring 5,217 additional employees. As of June 30, 1996, these companies were scheduled to repay $25,299,351 in deferred sales tax, $3,021,134 of direct labor was in abeyance, $3,838,032 of direct labor had been forgiven, $2,720,668 of deferred taxes were declared immediately due from bankrupt companies, and lumber and wood products companies had taxes totaling $1,954,495 waived. The difference between estimated taxes deferred and taxes accounted for are due to changes in project costs, adjustments as a result of an audit, and amounts not included because projects have not been completed and audited as of June 30, 1996.

Projects initiated on or after July 1, 1994 through June 30, 1995, are included in the second phase of the program; starting with this period the jobs creation requirement per investment was significantly reduced and the deferred amounts did not have to be repaid if other program requirements were met, effectively turning the deferral into an exemption. Of the 154 applications received during this year, there were 120 applicants accepted with approved projects. Eight applications were denied, 20 withdrew before participating, 2 applications were revoked, and 4 of the businesses subsequently closed. These projects were estimated by the applicants to create 3,355 new jobs. Applicants had approved projects with investments of $331 million, resulting in sales tax of $25,472,770 being exempted.

Effective on July 1, 1995, the third phase of the program began in which the jobs creation requirement was eliminated for most projects and qualifications were liberalized . Under this phase, the Department has received 110 applications of which 95 are approved and are participating in the program. Another 9 applications were denied and 6 have withdrawn. Applicants estimated project costs of $576 million, with estimated exempt taxes of $43,791,226, and projections for adding 2,517 new jobs. The majority of these projects have yet to be completed and actual figures will be available once projects are completed and audited.

B&O TAX JOBS CREDIT

The Business & Occupation Tax Jobs Credit had 566 applicants, with 326 approved certificates, 25 denied applications, 56 companies withdrew from the program, 128 certificates were revoked, and 31 applicants which closed their businesses or filed for bankruptcy. The applicants estimated that their investments would cost $738 million and create over 7,605 jobs. The impact on B&O tax revenues has amounted to the approval of credits worth $4,655,554.

NEW MANUFACTURER SALES TAX DEFERRAL

The New Manufacturer Sales Tax Deferral Program was enacted in 1985 and was closed to new applicants effective June 30, 1995. During its ten year life, there were 181 applicants to the program. Of these, 99 were approved and participated in the deferral, 36 were denied, 26 were withdrawn, 7 were revoked, and 13 were closed or became bankrupt. These applicants reported that their projects would created 4,654 new jobs. The total investment of $1,096 million resulted in an estimated tax deferral of $92,993,745. As of June 30, 1996, $81,224,325 had been deferred by companies that had completed their projects and had been audited.

Revenue Impacts

This section contains a synopsis of the direct impact these tax incentive programs have had on state and local government revenues.

AMOUNT OF SALES TAX ELIGIBLE FOR DEFERRED

Listed below are estimates of the amount of state and local sales tax that was eligible for deferral for the two deferral programs. The figures are based on project costs submitted by applicants and the relevant state/local tax rate, as approved by the Department after a review of the proposed project and the estimated number of new jobs. The estimates do not reflect the amount of tax deferral actually taken, since some of the projects were not completed due to applicants later going out of business. Also, some applications were subsequently modified to reflect changes to the project; these revisions may or may not be reflected in the project cost data. In addition, some of the project cost was converted into direct exemption (e.g., sales tax on labor associated with construction of projects in distressed areas).

Over the initial ten years of these programs, the amount eligible for deferral under both programs is estimated to total $128.8 million. The distressed area program (principally Phase I through 1994) represents $33.3 million in deferred sales taxes. Approximately $5.3 million of the

distressed areas deferral total is attributable to a single project. One-half of the total for this program is represented by the largest seven applications.

The remaining $95.5 million in sales tax eligible for deferral is pursuant to the new manufacturer program. Of this amount $22.8 million is represented by a single project, while the next largest three projects account for $21.1 million of the total. Altogether, four projects account for nearly 46 percent of the total amount eligible for deferral under the new manufacturer program.

Summary of Sales Tax Eligible for Deferral

	Distressed Area	New Manufacturer
Calendar Year 1985	$ 2,120,651	$ 3,613,162
Calendar Year 1986	1,766,818	26,786,252
Calendar Year 1987	536,410	10,831,067
Calendar Year 1988	3,259,573	3,050,489
Calendar Year 1989	9,698,980	10,051,809
Calendar Year 1990	3,266,731	10,268,333
Calendar Year 1991	919,613	3,355,097
Calendar Year 1992	7,462,411	4,535,508
Calendar Year 1993	3,331,344	11,283,011
Calendar Year 1994	919,712	11,698,776
TOTAL ELIGIBLE	$ 33,282,243	$ 95,473,504

REPAYMENT OF DEFERRED TAXES

The following table indicates the amount of state and local sales/use tax repayments since November of 1992. Unfortunately, earlier fiscal records for the deferral programs are not available, but it is expected that any repayments for this period would be relatively small. Further, the amount of repayment attributable to each of the two programs separately is not available. For the period covering FY 1992 through 1996 the amount of repaid tax under both deferral programs totals $28.9 million.

Summary of Repayment of Deferred Taxes

	Amount Repaid*
Fiscal Year 1992	$ 4,757,474
Fiscal Year 1993	2,285,036
Fiscal Year 1994	7,689,748
Fiscal Year 1995	2,097,686
Fiscal Year 1996	12,062,013
TOTAL REPAYMENTS	$28,891,957

*Amounts repaid prior to November, 1991 are not available.

AMOUNT OF DEFERRED TAXES STILL OUTSTANDING

Listed below are estimates of the outstanding amount of state and local sales taxes deferred under the distressed area and new manufacturer programs which have yet to be repaid. The figures are updated as of July 1, 1996. For all applications received through the end of fiscal year 1996, a total of $106.5 million of state and local sales tax remains subject to repayment over the period from 1989 through 2002. Amounts prior to 1994 are largely due to firms which are now out of business and are considered as uncollectible. These include $3,571,562 for the distressed area deferral and $10,908,365 for the new manufacturer program for a total of $14,479,927 which will likely never be collected. Therefore, these uncollectible amounts are shown in the following section which provides estimates of the outright revenue reductions associated with the three programs.

Summary of Outstanding Deferred Sales Taxes

	Distressed Area	New Manuf.	Total Due
Cal. Year 1989	$ 158,010	$ 32,910	$ 190,920
Cal. Year 1990	268,576	363,282	631,858
Cal. Year 1991	626,638	656,291	1,282,929
Cal. Year 1992	960,523	3,636,183	4,596,706
Cal. Year 1993	1,557,815	6,219,699	7,777,514
Subtotal, Uncollectible	3,571,562	10,908,365	14,479,927
Cal. Year 1994	2,177,198	8,750,545	10,927,743
Cal. Year 1995	2,883,786	10,819,221	13,703,007
Cal. Year 1996	3,565,133	13,778,975	17,344,108
Cal. Year 1997	4,225,694	8,045,769	12,271,463
Cal. Year 1998	4,028,526	7,506,295	11,534,821
Cal. Year 1999	2,333,049	7,544,631	9,877,680
Cal. Year 2000	1,906,661	6,343,672	8,250,333
Cal. Year 2001	334,873	4,979,426	5,314,299
Cal. Year 2002	272,869	2,547,426	2,820,295
Subtotal, Outstanding	21,727,789	70,315,960	92,043,749
TOTAL DUE	$25,299,351	$81,224,325	$106,523,676

DIRECT REVENUE REDUCTIONS

The postponement of payment of retail sales tax for the deferral programs has the economic effect of an interest free loan for up to eight years (plus the period of construction which can extend for several years). The foregone interest on deferred amounts could be considered as a direct revenue impact. However, for purposes of this analysis, only those provisions of the programs which directly reduce revenue collections are summarized below. The B&O jobs credit is taken against tax liability and directly reduces state business tax receipts. Because of the 1994 liberalization of the distressed area sales tax program, most of the recent impact of this program appears as a direct exemption from state and local sales tax. Also, since 1986 the law has permitted direct exemption of sales tax incurred on labor associated with construction of projects in distressed areas. Finally, deferred taxes for companies which subsequently went bankrupt before completing their repayments typically appears as a direct loss of revenue, even

though efforts are made to recover these amounts and tax warrants may be filed. As indicated below, through June 30, 1996 the total direct reduction in state and local revenues as a result of exemptions and credits (not deferrals) under the three programs has just exceeded $100 million over the life of the programs.

Summary of Cumulative State/Local Revenue Reductions

Sales tax deferred but unpaid (pre-1994)*	
Distressed area	$ 3,571,562
New manufacturer	10,908,365
Deferred sales tax for bankrupt firms**	2,828,270
Sales tax exempted in distressed areas:	
Phase II (1994)	25,265,616
Phase III (post 1994)	43,791,226
Sales tax forgiven on construction labor***	6,859,166
Sales tax waived for lumber/wood firms	2,161,579
Total State/Local Sales Tax Reduction	95,385,784
State B&O tax credits authorized	4,655,554
TOTAL REVENUE REDUCTIONS	$100,041,338

* warrants yet to be filed.

** warrants filed but recovery is unlikely due to bankruptcy.

*** includes tax on labor held in abeyance for which the exemption will likely be approved.

Table 5-1
DISPOSITION OF PROGRAM APPLICATIONS
Statewide Totals by Program Type, Through June 30, 1996

Program	Total Number of Applicants	Approved and Maintained	Denied	Withdrawn	Revoked	Bankrupt	Closed
Distressed Area Phase I	*268*	*136*	*48*	*55*	*13*	*9*	*7*
Distressed Area Phase II	*154*	*120*	*8*	*20*	*2*	*0*	*4*
Distressed Area Phase III	*110*	*95*	*9*	*6*	*0*	*0*	*0*
Distressed Area Total	532	351	65	81	15	9	11
Job Credit	566	326	25	56	128	6	25
New Manufacturer	181	99	36	26	7	6	7

Table 5-2
INVESTMENT, TAX IMPACTS, AND JOBS CREATED
Statewide Totals by Program Type, Through June 30, 1996

Program	Estimated Project Cost	Estimated Tax Credit, Deferral, or Exemption	Estimated Number of Jobs to be Created*
Distressed Area Phase I	*$460,488,027*	*$43,623,585*	*5,217*
Distressed Area Phase II	*$331,004,609*	*$25,472,700*	*3,355*
Distressed Area Phase III	*$576,504,835*	*$43,791,226*	*2,517*
Distressed Area Total	$1,367,997,471	$112,887,511	11,089
Job Credit	$738,088,462	$4,655,554	7,605
New Manufacturer	$1,096,091,200	$92,993,745	4,654

* Companies estimate of jobs to be created, per original program applications.

Table 5-3
DISTRESSED AREA SALES TAX DEFERRAL / EXEMPTION PROGRAM
Program Participation by County, 1985 - 1995
(* = traditionally distressed counties)

County	Number of Program Participants	Estimated Number of New Jobs	Estimated Tax Deferred/Exempted
Adams*	4	285	$3,941,978
Asotin	0	0	0
Benton*	17	231	3,129,553
Chelan*	13	410	2,024,968
Clallam*	13	182	801,571
Clark	0	0	0
Columbia*	1	6	0
Cowlitz*	36	940	23,858,374
Douglas	2	67	46,850
Ferry*	1	60	1,362,038
Franklin*	9	366	3,611,756
Garfield	0	0	0
Grant*	22	628	19,670,758
Grays Harbor*	23	1,099	5,280,019
Island	0	0	0
Jefferson	0	0	0
King	9	28	1,435,002
Kitsap	0	0	0
Kittitas*	0	0	0
Klickitat*	7	33	252,494
Lewis*	32	716	2,991,199
Lincoln	0	0	0
Mason*	11	62	261,915
Okanogan*	4	68	121,585
Pacific*	4	9	278,070
Pend Oreille*	3	17	726,568
Pierce	11	368	6,267,573
San Juan	0	0	0
Skagit*	46	1,308	6,194,889
Skamania*	5	93	173,832
Snohomish	2	24	229,603
Spokane	2	50	220,008
Stevens*	4	97	168,057
Thurston	0	0	0
Wahkiakum*	1	3	27,431
Walla Walla	1	55	4,717,508
Whatcom	1	2	8,250
Whitman	0	0	0
Yakima*	67	1,405	14,805,280
TOTAL	351	8,612	$102,607,129

Companies in bankruptcy or abeyance, and direct labor or lumber & wood waiver participants are excluded from the above chart.

Table 5-4
NEW MANUFACTURER SALES TAX DEFERRAL PROGRAM
Program Participation by County, 1985 - 1995
(* = traditionally distressed counties)

County	Number of Program Participants	Estimated Number of New Jobs	Estimated Tax Deferred/Exempted
Adams*	1	0	$0
Asotin	0	0	0
Benton*	1	6	468,000
Chelan*	0	0	0
Clallam*	0	0	0
Clark	17	1,012	11,712,576
Columbia*	0	0	0
Cowlitz*	7	84	6,974,912
Douglas	1	40	14,100
Ferry*	0	0	0
Franklin*	0	0	0
Garfield	0	0	0
Grant*	2	37	3,212,154
Grays Harbor*	0	0	0
Island	0	0	0
Jefferson	0	0	0
King	17	851	10,628,677
Kitsap	0	0	0
Kittitas*	0	0	0
Klickitat*	1	450	519,610
Lewis*	1	100	2,672,871
Lincoln	0	0	0
Mason*	3	21	115,685
Okanogan*	0	0	0
Pacific*	0	0	0
Pend Oreille*	1	140	22,790,741
Pierce	12	315	5,667,872
San Juan	0	0	0
Skagit*	1	18	1,021,507
Skamania*	0	0	0
Snohomish	6	405	6,089,992
Spokane	8	106	7,918,817
Stevens*	0	0	0
Thurston	9	254	3,169,213
Wahkiakum*	0	0	0
Walla Walla	1	271	249,184
Whatcom	16	544	9,767,834
Whitman	0	0	0
Yakima*	0	0	0
TOTAL	105	4,654	$92,993,745

Table 5-5
DISTRESSED AREA BUSINESS AND OCCUPATION TAX JOB CREDIT
Program Participation by County, 1985 - 1995
(* = traditionally distressed counties)

County	Number of Program Participants	Estimated Number of New Jobs	Estimated Amount of B&O Tax Credit
Adams*	2	150	$150,000
Asotin	0	0	0
Benton*	9	232	226,957
Chelan*	7	228	196,053
Clallam*	16	202	110,747
Clark	0	0	0
Columbia*	1	2	2,000
Cowlitz*	27	730	517,949
Douglas	0	0	0
Ferry*	1	80	80,000
Franklin*	7	330	47,080
Garfield	0	0	0
Grant*	13	160	84,367
Grays Harbor*	34	1,358	932,069
Island	0	0	0
Jefferson	0	0	0
King	0	0	0
Kitsap	0	0	0
Kittitas*	0	0	0
Klickitat*	8	47	6,858
Lewis*	52	891	617,084
Lincoln	0	0	0
Mason*	4	54	20,073
Okanogan*	5	102	40,000
Pacific*	3	14	485
Pend Oreille*	3	11	7,580
Pierce	4	32	4,000
San Juan	0	0	0
Skagit*	54	1,184	421,186
Skamania*	4	59	7,385
Snohomish	1	15	2,005
Spokane	0	0	0
Stevens*	8	247	205,531
Thurston	0	0	0
Wahkiakum*	4	14	6,001
Walla Walla	0	0	0
Whatcom	1	2	0
Whitman	0	0	0
Yakima*	58	1,461	970,144
TOTAL	326	7,605	$4,655,554

Chapter Six
IMPACT ON PARTICIPANTS

Job Creation

On the applications for the three tax incentive programs received through June 30, 1996, applicants indicated they expected to create a total of 23,348 new jobs. Since a portion of the tax benefit for the programs depends upon the jobs that were actually created, efforts have been made to ascertain how many of these new positions actually materialized. In the process of approving deferrals, exemptions and credits, copies of tax returns filed with the Employment Security Department, which contain company employment data, were examined. Subsequent efforts have been made to compare the actual number of jobs for facilities that participated in the incentive programs. There are a variety of reasons why the original projection of new jobs by the firm may not have been sustained:

- firms may have subsequently gone out of business, been sold or been merged with other firms.
- firms may have transferred jobs from other facilities to the one covered by the program.
- firms may have hired the expected number of new employees but these jobs may not have lasted beyond the initial year.
- firms may have added capacity in anticipation of improved demand for the products but the demand failed to materialize.
- the industry in which the firm is located may be shrinking, due to market forces and competition involving substitute products or lower priced imported goods.

The following table compares two different views of projected new jobs from these programs. One view is the original estimate of job creation given by applicants (column 1). The second view of job creation is an estimate by the Department of "net" new job creation by program participants (column 2). The net jobs are calculated using employment growth for matched job records for program participants three years after project completion and subtracting the growth which actually occurred for the same industry over that period. This approach assumes that the participants would have otherwise experienced growth rates synonymous to what actually occurred for similar firms, even in the absence of the tax incentive. The result of this calculation is an estimate of job growth that is more directly attributable to just the tax incentive programs.

However, this approach has limitations. The first is that the analysis is based only on the firms where employment could be matched for the requisite period of time (i.e. from 22 to 49 percent of participants in the deferral and credit programs - none of the participants in the direct exemptions are included). The results of the matching were then extrapolated to the entire population for that program. (The reasons for reduced employment and the need for a matching process are discussed above in Chapter 4 and again later in this chapter.)

The second limitation is that the firms included in the "same-industry growth" are not necessarily involved in a capital investment program during this period. This means that participant firms who did make a capital investment are probably being compared with firms that are not likely to have made similar investments. The resultant net increase for the deferral participants is therefore likely to be overstated since their job growth is being compared with firms which probably did not expand facilities and thus did not have the same opportunity to expand their employment.

Even though there are limitations to this type of comparison, additional data were not available to further refine the analysis. This type of analysis is also used to estimate pay-back periods (i.e. the period required for tax receipts attributable to the overall growth in the economy resulting from the investment to equal the amount of initial revenue reduction), as discussed later in this chapter.

	Applicant's Estimates of New Jobs	DOR Estimated Net Jobs
Sales Tax Deferrals:		
Distressed areas	11,089	3,173
New Manuf.	4,654	2,249
B&O Jobs Credit	7,605	575
TOTAL JOBS	23,348	5,997

Analysis of Employment Growth for Participants

In order to analyze how the tax incentive programs impacted participants, employment changes for the participating firms were evaluated. For each participant that had completed a project and had sufficient employment history to do a comparison, company employment data obtained from the Employment Security Department were matched to the sites where approved projects were located. It should be noted that the term "project" does not necessarily have the same meaning for the B&O tax job credit program as for the deferrals, since there is no capital investment requirement for the jobs credit.

Not all firms with qualifying projects could be analyzed due to the data difficulties mentioned in Chapter 4. For the jobs credit program 74 project credits were analyzed out of 326 approved project credits. For the distressed area deferral program (pre 1994), 66 deferrals out of 136 deferrals were analyzed. For the new manufacturer deferral program 24 deferrals were evaluated out of 99 approved projects. The distressed area deferral program was expanded on July 1, 1994 and again on July 1, 1995, but there have been so few completed projects to date that were approved under these changes that there is little or no employment data that can be analyzed for those projects.

To put each project in its own context, employment growth for a period of five years after project completion was analyzed. Employment growth was compared with employment growth in the same industry group for the same time period, for the entire state and for the nation. Comparisons were also made with total employment growth for the same county. Since the earliest of the programs began in 1985 and the latest period reviewed was 1995, a 10 year span of 5-year periods after project completion was potentially available for analysis (e.g. 1986-1991, 1989-1994, etc.). To provide perspective for time effects of growth, a 3 year and 5 year review was done but not all firms in the 3 year review were also included in the 5 year review because not all of them had sufficient employment history after the completion date. Therefore, the sample that was analyzed decreased after the third year.

One anomaly that was found after matching employment by location was that a company's matched employment in the year prior to project completion did not always equal the expected pre-completion level employment that DOR had in its file for the project. To resolve this difficulty a weighted employment estimate for that year was developed based on the month of completion using the matched employment. This method would provide a more conservative approach since the calculated first year growth would be less than if a lower initial employment level, as reported by the applicants, had been used.

The data generated as a result of this analysis are summarized in Tables 6-1 to 6-3. These results were used to evaluate the following questions.

What is the pattern of employment growth after completion of the project?

For each of the programs, employment growth had a similar pattern of increasing rapidly for two or three years and then declining. In some cases the subsequent decline in employment was as steep as the ascent. By the third year after completion of the project, the average participant's employment had grown more than the comparative industry average in the state, but by the fifth year cumulative employment growth was approaching zero for the job credit program. Deferral program participants tended to retain new employment to a greater extent.

This is illustrated in Table 6-1 which shows single year growth rates for the average program participant. For example, firms which utilized only the B&O credit for jobs creation had an initial average increase in jobs of 7.63 percent. The increase dropped the second year to 4.71 percent, and by the third and fourth years the growth rate was negative. The fifth year the average gain was again up but the increase was less than one percent. Firms in the distressed area deferral only experienced an average first year increase of 4.42 percent jobs, followed by lesser growth rates in subsequent years. Participants in the new manufacturer program indicated much larger growth rates -- 18.60, 9.88 16.22 and 24.09 percent -- in the first four years, but by the fifth year the growth rate was negative.

As a general rule, the growth rates were higher for program participants than for the statewide average for the same industries in the initial years. However, by the fourth or fifth year the statewide average growth in jobs, which had remain at a more constant level, was higher than for program participants. The nationwide growth rates were consistently at lower, and mostly negative, levels.

Do participating firms increase their employment more in line with national changes in industry employment than state employment? If so, this might imply that national growth diversification is transferred to Washington, and thereby help to mitigate volatility in Washington employment.

A review of the data indicated that on average, for industry groups represented by firms in the various programs, the comparative Washington industry grew faster than the nation for every time period reviewed between 1985 and 1995. Therefore, a firm that was a Washington state trend follower was better for the state than being a national trend follower, unless higher growth industries were added to Washington's employment base. It was found that there was little correlation between employment growth in the industries in distressed area programs and the same industries in the state but a high correlation existed with national growth rates for those same industries. This, therefore, implies that slower growth or negative growth industries were being expanded in distressed areas and/or that weaker national markets were being relied on.

These data imply a survival motivation rather than expansion into markets that have higher growth in the state. These firms therefore provide less competition with existing Washington firms but may not be generating as much in-state secondary growth because of the higher correlation to external markets.

The new manufacturer program participants were in industries which had higher Washington growth rates but those same industries had generally negative national growth rates just as the distressed area industries did. The difference was that their correlation with Washington industry growth was positive and stronger which resulted in significantly higher growth rates than the state averages for those same industries. The implication is that firms using this program were doing so to expand into Washington's higher growth market. They therefore were probably providing more competition for existing firms but may also have provided more secondary employment growth here due to the higher in-state industry correlation.

Tables 6-1 and 6-2 show how company employment growth correlates with state industry growth and U.S. industry growth for the average participant in these programs.

What relationship exists between the job credit taken and jobs created over time?

Participants in the distressed area job credit program only (who were not also participating in the sales tax deferral program) had lower growth rates than those firms that also added plant capacity. For the firms with job credits who did not also participate in the deferral, a decline in the rate of employment growth began occurring in the third year. By the fifth year job growth for job credit firms was less than one percent, and the cumulative growth of employment for all five years was equal to only 2.5 percent. Table 6-1 shows the time pattern of this growth.

Is there a relationship between the tax benefits received and employment growth? It has been stated by firms that tax benefits allow firms to either invest more in capital or labor or both and therefore increased growth should be expected.

To attempt to answer this question a regression was done to compare the present value of tax benefits received per new job created to the employment growth rates after the completion of the project. It was found that there is no apparent correlation over a three or five year period of growth. In the alternative a regression was attempted to compare the present value of tax benefits received per existing job to the employment growth rates after the completion of the project. Similarly, it was found that there was also no apparent correlation to this formulation.

Do firms that participate in these programs and receive tax benefits increase employment at a greater rate than firms not participating in these programs?

When comparing the growth rates of program participants to growth rates in the same industry in the state, there is additional growth by these participants shown in the first few years after completing a project. This is an expected result because additional capacity is being added relative to the average firm in the same industry, which is generally not adding capacity. However, the increased growth of employment appears to subside over time. There may be a variety reasons for this: (1) a firm may have added capacity in anticipation of improved demand which did not materialize; (2) a firm may have created a more efficient facility which allows them to reduce employment in another nearby facility; (3) the industry in which the firm is located may be shrinking due to competing substitute products or lower priced imported goods; or (4) the firm's investment decision may have been economically unsound. Table 6-1 shows the time pattern of this growth.

Once a firm receives tax benefits for expansion under a deferral program is there additional growth in employment if the firm also participates in the job credit program?

To attempt to answer this question participants were separated into distressed area job credit participants alone, distressed area deferral participants alone and all deferral participants. When reviewing growth rates for the different groups, the distinctive observation is that the growth for job credit participants alone does not hold up as well, and begins to decline earlier. This result is probably due to the fact that such firms generally did not expand capacity. There is greater growth for participants in the combined credit plus deferral programs as compared to the credit alone or deferral alone participants, but it is not clear whether this is due to industry or scale differences between participants in the groups.

Does facility expansion affect the growth in employment more than simply purchases of equipment alone?

A regression test of this question indicates that there is a relationship between the proportion of structural investment in a project and the growth rate for that project over a three year period after completion. However, this relationship is subject to extreme variability since growth rates of firms, structural shares, the use of leased assets and variations among the industries create large differences.

Based on the information available for analysis, can program paybacks of state tax resources be estimated?

For those firms where employment history was available, differential growth rates above state industry averages can be computed and the net new job creation can be compared with tax benefits provided to the firms. The resultant data can be used to compute a payback time period, assuming these results are representative of the entire population of firms. The results of these calculations are shown in Table 6-3.

There are several caveats that need to be stressed about these results. 1) Since the sampled data covered only firms with measurable employment for at least a three year time period, they overstate the results of a complete analysis of the program because firms without a longer employment history were excluded. 2) Some firms closed or declared bankruptcy and the revenue losses due to those participants would need to be added to the successful firms to compute a valid overall program payback period. 3) In some cases participant firms have merged with other companies and the employment growth of those participants could not be matched for analysis so the results exclude data for those firms as well. 4) Firms in the comparisons are 100 percent involved in capital spending programs (except job credit only participants) but they are being compared with industry firms which on average are not doing a capital spending program, thereby overstating the effect of the program on the participants. 5) There was insufficient data after project completion to analyze the distressed area exemption participants, so if there was any behavioral impact to the greater exemption amounts it could not be measured. The proxy payback for this group was based on the earlier deferral participant growth rates. Therefore, the results of the analysis should be considered the most positive possible and its best value is in making relative program difference evaluations.

The analysis presented in Table 6-3 assumed a 35 percent present value benefit to new manufacturer participants due to the three year deferral (plus construction period) and five year repayment requirement. For the distressed area deferral participants in 1985 (before the exemption of labor on structural expansion), the same 35 percent factor was assumed but for those after 1985 a 45 percent present value factor was used to account for the labor exemption.

Since there were too few participants with completed projects in the distressed area program after 1994 (when the program was dramatically liberalized), no analysis of those projects was possible. To provide some idea of a potential payback for those types of projects when an exemption would be available, the results of the deferral projects were used but with a 100 percent present value assumption.

The average wage assumptions were equivalent to those shown in other tables in this report. The income multiplier was based on the 1993 IMPLAN (an economic input/output model) calculations for Washington. The state general fund contribution as a share of income is

estimated by the Research Division; it is intended as a rough approximation of the portion of wages for one new job which are directly or indirectly paid in state taxes for all activities associated with adding one new job to the state economy. The real discount factor of 3 percent is based on 6 percent growth with inflation assumed to equal 3 percent.

The table compares payback calculations assuming that at the third year or fifth year following completion of the project employment gains up to that time would be maintained for an infinite time period. The employment growth up to that time (three or five years) are spread evenly over that period. The computed net job share is the proportion of new jobs which are in excess of the state's same industry growth rate for the same time period. The net job cost is the present value tax cost divided by the net new (excess) jobs attributable to the incentive.

The results shown in the table indicate that the new manufacturer deferral program (repealed in 1995) had a payback period of 4 years, the lowest of those reviewed. This was due to both the lower net tax cost (as a deferral) as well as higher relative employment growth for those participants than in the distressed area programs.

The distressed area deferral (prior to the time it became an exemption) had a computed payback time of 7 to more than 10 years with an apparent lengthening of the payback over time because of weak or negative growth after 3 years. This is probably due to generally weaker growth in the industries that participated in this program.

The distressed area deferral (after it became an exemption) has a longer payback period because the tax cost is higher. Using as a proxy the employment growth of the earlier deferral participants the payback for the distressed area exemption would be about 12 years.

The distressed area B & O job credit participants have different payback results than for those firms in distressed areas participating in the deferral programs. For those firms that only participate in the job credit program, employment growth by the third year (if it could be maintained indefinitely) would convert to a payback of over 10 years but by the fifth year the employment growth had essentially disappeared making the payback not possible. It appears that jobs created under this program without a plant expansion have a significantly lower possibility of becoming permanent positions.

UNANSWERED QUESTIONS

Analysis of all aspects of the tax incentive programs would have require significantly more time and more complete source data. Some of the additional areas which would have been instructive to examine include the following questions.

- Is employment growth greater for expansions of existing firms or entirely new firms? It is reasonable to assume that a completely new facility to the state would generate more net new jobs than an expansion. Further, this hypothesis is probably supported by data comparing the new manufacturer program deferral results with the distressed area deferral program results. Nonetheless, the information on program participants would require additional review to classify projects into new and existing to test the hypothesis.

- To what extent are total county employment changes impacted by the employment changes of the program participants? How long do any ripple effects take? If little correlation exists, it may suggest that diversification is added by firms that participate. Higher correlations for certain years tend to imply a ripple effect in certain years. An attempt to measure this concept was made which provided an indication of a slightly positive effect on county growth after four years, but the relative size of firms would need to be considered and more participants with matched employment would be necessary to do a reasonable test. In short, a more sophisticated approach may be necessary to analyze this type of effect.

- Is there an effect on participation or employment growth due to the changes in the program's capital to labor requirement? This could not be analyzed because the total cost of the project was not captured in the Department's records, only the taxable amount deferred or exempted.

- Is there a consistent explanation of why firms withdraw from the programs? This question can't be answered because that information was not captured in DOR files.

- New firms vs. existing firms. It was not possible to determine how many of the participating firms were actually new to Washington, compared with an expansion for firms that already were present in the state. This was due to the inability to match total employment for all participating firms. Such information was not captured in the Department's files. The characteristic "new" that was captured referred to new construction as opposed to remodeling of facilities in the distressed area program. The new manufacturer program was intended to be for new firms to the state. However, the 1985 threshold allowed existing firms after 1985 to participate, and aluminum firms before 1975 were also eligible. It appears however that most of the 99 new manufacturer participants were actually new to manufacturing in this state.

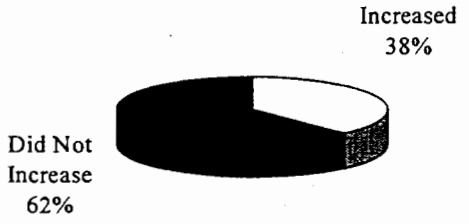
Research and Development Investment

On the survey of program participants, firms were asked to report increases in research and development expenditures made by their firm. No designated format for reporting these increases was outlined. Responding companies reported increases in spending in either a total dollar amount or a percentage increase over previous year spending. The increased dollar

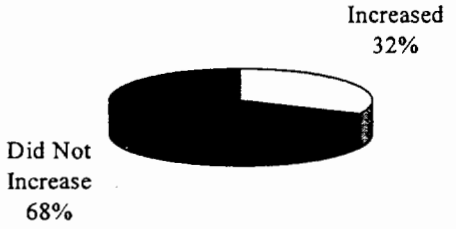
amounts range from $10,000 to $10 million, while percentage increases extend from 10 percent to 125 percent.

Thirty-two percent of the respondents that participated in the Distressed Area Sales Tax Deferral/Exemption and 38 percent of the responses in the New Manufacturer Sales Tax Deferral

New Manufacturer Sales Tax Deferral



Distressed Area Sales Tax Deferral/Exemption

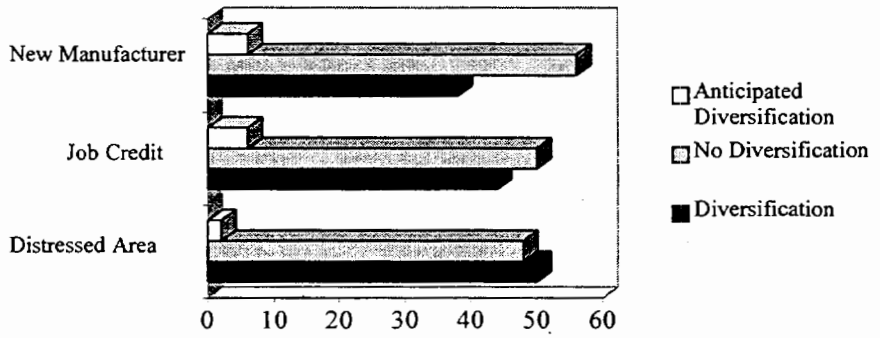


indicated increased research and development spending as a result of their participation in the programs. None of the Distressed Area Business and Occupation Tax Jobs respondents reported any increased spending as a result of participating in the tax credit program. However, the focus of the Jobs Credit program was not to expand research and development but to encourage increased employment in distressed areas and not necessarily to encourage capital investment.

The companies that experienced an increase in research and development spending were diverse. The survey results did not indicate any particular area of manufacturing had a significant increase in spending or that any area was prominently lacking in spending increases.

Product Line Diversification

Companies were asked to report any diversification of product lines that was a result of their participation in the program. The 114 survey responses relating to the diversification of product lines were broken down into three categories: *No Diversification*, *Diversification*, and *Anticipated Diversification*. According to those surveyed a significant number of participants diversified their product lines. For those that took part in the Distressed Area Sales Tax Deferral/Exemption, 50 percent diversified their product lines, 48 percent did not, and 2 percent anticipated diversification in the future. Forty-four percent of Business and Occupation Jobs Credit survey participants diversified, 50 percent did not, and 6 percent anticipated future diversification. Thirty-eight percent of New Manufacturer Sales Tax Deferral certificate holders that completed the survey diversified their product lines, 56 percent did not, and 6 percent anticipated diversification.



Some areas of manufacturing which appear in the survey results show a significant increase in product line diversification in more than one of the incentive programs. *Lumber & Wood Products* and *Food & Kindred Products* reported product diversification in both distressed area programs. These are the two predominant sectors in distressed areas. The percentage of companies in the lumber and wood industry in distressed areas is more than three times higher than in nondistressed areas. *Paper & Allied Products* and *Printing & Publishing* also saw an increase in product line development in both Distressed Area programs. *Rubber & Miscellaneous Plastic Products* and *Transportation Equipment* manufacturing diversification increased noticeably in all three programs. The similarity in the results of surveys relating to the Distressed Area Sales Tax Deferral/Exemption and surveys on the Distressed Area Job Credit program can be explained by the fact that many companies participated in both programs creating related populations.

Analysis of Job Growth Requirement

An analysis of the participants in the B&O tax jobs credit program was completed to determine if changing the 15 percent job growth criterion would have a significant impact on the number of potential program participants. The tables contain historical data for manufacturing firms for the

years 1989 through 1995 in distressed and nondistressed counties respectively. The data reflect the change in the number of participants who would qualify for the B&O tax jobs credit program assuming the employment growth requirement were lowered from the present 15 percent level to 10 percent, 5 percent and no employment growth.

The results of the analysis are summarized in the following tables.

Distressed Areas

Time Periods	89-90	90-91	91-92	92-93	93-94	94-95
Percent Growth						
0%	35%	34%	41%	47%	43%	38%
5%	28%	26%	34%	38%	32%	28%
10%	25%	22%	29%	33%	26%	22%
15%	22%	18%	25%	29%	22%	22%

Non-Distressed Areas

Time Periods	89-90	90-91	91-92	92-93	93-94	94-95
Percent Growth						
0%	41%	39%	48%	58%	54%	48%
5%	34%	30%	38%	46%	41%	36%
10%	29%	26%	33%	41%	34%	29%
15%	19%	23%	28%	33%	24%	24%

As can be seen from the table, reducing the employment growth requirement from 15 percent to 5 percent for companies in distressed areas (from 22 to 28 percent) has relatively little impact on the number of participants who would qualify for the program. Even lowering the employment

requirement to zero does not further increase the number of participants who qualify by a significant margin.

It should be noted that because the employment growth requirement is stated in percentage terms, small businesses and new businesses tend to be favored over large businesses. For example, if a firm with 3 employees adds one new job a 33 percent growth rate results. In contrast, a business with 100 employees would need to add 33 additional employees to achieve the same growth in percentage terms.

Comments and Suggestions by Participants

The survey of incentive program participants included a comment section where some companies took the opportunity to assess their satisfaction with programs or to offer constructive criticism. Of the 114 completed surveys received, 63 made comments relating to their satisfaction with the program.

One company in the Distressed Area Sales Tax Deferral/Exemption and in the Business and Occupation Tax Jobs Credit expressed total displeasure with the programs. These comments were identical and made by one respondent who had participated in both programs. No reasons for the company's displeasure were offered.

Approximately 14 percent of the comments made for the Distressed Area Sales Tax Deferral/Exemption program, 23 percent of the Business and Occupation Tax Job Credit comments and one comment for the New Manufacturer Sales Tax Deferral indicated general satisfaction with the program, but expressed some problems, such as:

- B & O Tax Job Credit difficult to administer and track.
- High employee turn-over rate experienced in Distressed Area programs.
- Coordination between state and local agencies should be improved for all programs.

The majority of companies that made comments expressed their contentment with the tax incentive programs. Some 83 percent of the Distressed Area Sales Tax Deferral/Exemption, 68 percent of the Business and Occupation Tax Job Credit, and 60 percent of the New Manufacturer Sales Tax Deferral comments were extremely favorable. Standard comments included appreciative statements, such as:

- Distressed Area Sales Tax and B&O Job Credit savings resulted in business expansion and allowed us to open an unplanned retail store in Sunnyside, creating more jobs.
- Distressed Area Sales Tax dollars very instrumental in helping small businesses.

- Without Distressed Area programs we would have either relocated to another state or reduced our local employment and had the facility built in another state.
- The New Manufacturer Sales Tax Deferral assisted in developing a new process to convert waste to fertilizer and allowed our company to add a research and development division.

Nearly one-half (48 percent) of survey respondents did not make any comments or made statements not related to program satisfaction. But the majority of companies that took the time to assess their satisfaction with the programs were pleased with the results of their participation.

BUSINESS LOCATION DECISIONS

The companies surveyed were also asked if the distressed area programs were influential in helping the firm decide where to locate. Some 61 percent of survey respondents who participated in the distressed area sales tax deferral/exemption indicated that the decision to locate in a distressed area was influenced by the prospect of participating in the tax program. Nearly as many (59 percent) of the participants in the distressed area B&O tax jobs credit program considered the program a factor in the decision to locate in a distressed area.

Some responding companies went further than merely stating that the program was important when deciding where to locate. Comments were made describing how important the program was to the decision-making process. The distressed area sales tax program encouraged more than one company, not only to locate in a distressed area, but to remain in Washington state. One company was influenced by a DOR employee's statements outlining it's eligibility for the program. Without the program or the explanation of eligibility, the company admits it would not have located in a distressed area.

The most common reason for locating in a distressed area, for companies that did not feel that the program was influential in deciding where to locate, was that the business owners already lived in the distressed area and chose a business location close to home.

Table 6-1

EMPLOYMENT GROWTH COMPARISONS AFTER PROJECT COMPLETION - BY PROGRAM

COMPANY SINGLE YEAR GROWTH - WEIGHTED BY EMPLOYMENT

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit Only	7.63%	4.71%	-3.54%	-7.14%	0.84%
All Job Credits	14.34	5.29	0.86	-3.97	-12.03
Distressed Deferral Only	4.42	1.32	4.19	-1.51	2.46
Deferral + Job Credit	7.39	0.51	3.47	-0.10	1.40
New Manufacturer Program	18.60	9.88	16.22	24.09	-3.98

SAME INDUSTRY - WASHINGTON GROWTH

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit Only	2.47%	2.34%	2.38%	1.49%	-0.41%
All Job Credits	1.06	1.42	1.00	0.81	1.63
Distressed Deferral Only	2.00	1.89	2.01	0.25	1.76
Deferral + Job Credit	1.01	1.49	2.11	0.22	-0.39
New Manufacturer Program	0.68	1.23	2.01	7.31	0.45

SAME INDUSTRY - U.S. GROWTH

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit Only	-0.45%	-0.53%	-0.79%	-0.39%	-2.24%
All Job Credits	-0.43	-0.45	-0.37	-0.79	-1.55
Distressed Deferral Only	0.23	1.56	0.56	-0.15	-1.29
Deferral + Job Credit	-0.23	0.93	0.64	-0.19	-1.15
New Manufacturer Program	-1.88	-1.52	0.17	4.16	-1.31

Table 6-2

CORRELATION OF CUMULATIVE EMPLOYMENT GROWTH AFTER PROJECT COMPLETION - BY PROGRAM

AVERAGE COMPANY VERSUS SAME INDUSTRY IN WASHINGTON

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit	-19.79%	-14.08%	-4.64%	-1.05%	-3.30%
Distressed Area Deferral	-10.98	-14.05	-9.63	-2.71	3.12
New Manufacturer Program	7.92	33.86	28.92	24.98	34.83

AVERAGE COMPANY VERSUS SAME U.S. INDUSTRY

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit	39.99%	48.15%	42.81%	47.31%	37.24%
Distressed Area Deferral	64.40	74.69	69.35	61.14	51.72
New Manufacturer Program	70.42	55.12	47.84	57.89	-21.47

AVERAGE COMPANY VERSUS SAME COUNTY

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Job Credit	-17.53%	-17.09%	-3.72%	9.24%	14.02%
Distressed Area Deferral	-1.15	2.93	6.62	18.67	15.50
New Manufacturer Program	-5.30	-10.77	23.42	42.94	44.65

Table 6-3

ESTIMATED PAYBACK TIMES FOR PROJECTS WITH MEASURABLE EMPLOYMENT HISTORY BY PROGRAM

Fifth Year Cumulative Growth Rate Calculation

	5 Year Computed Net Job Share	State Net New Job Cost	New Mfg. Wage	Income Multi-plier	General Fund Contri-bution	Real Discount Factor	State Tax Payback in Years
Distressed Area Deferral (with job credit)	64.87%	$15,322	$29,400	1.98	0.07	0.03	6.28
Distressed Area Deferral (without job credit)	27.35	28,209	29,400	1.98	0.07	0.03	10.39
Distressed Area Job Credit ($1000 level, alone)	*	Infinite	29,400	1.98	0.07	0.03	NA
Distressed Area Exemption (derived from deferral)	64.87	33,889	29,400	1.98	0.07	0.03	12.37
New Manufacturer Deferral	81.97	10,474	35,900	1.98	0.07	0.03	4.32

*Insufficient growth

Third Year Cumulative Growth Rate Calculation

	3 Year Computed Net Job Share	State Net New Job Cost	New Mfg. Wage	Income Multi-plier	General Fund Contri-bution	Real Discount Factor	State Tax Payback in Years
Distressed Area Deferral (with job credit)	59.37%	$16,293	$29,400	1.98	0.07	0.03	5.47
Distressed Area Deferral (without job credit)	40.59	21,565	29,400	1.98	0.07	0.03	7.04
Distressed Area Job Credit ($1000 level, alone)	18.25	32,701	29,400	1.98	0.07	0.03	10.64
Distressed Area Exemption (derived from deferral)	59.37	36,207	29,400	1.98	0.07	0.03	11.86
New Manufacturer Deferral	91.24	12,888	35,900	1.98	0.07	0.03	3.82

Chapter Seven
IMPACT ON THE STATE ECONOMY

Comparison Between Distressed and Nondistressed Areas

Because areas which are economically distressed include counties, timber impact communities (cities), and community empowerment zones (areas within counties and cities), it is virtually impossible to statistically divide up the state economy into distressed and nondistressed areas according to the definitions contained in the sales tax deferral/exemption program or the B&O tax credit program. For example, several blocks in downtown Bremerton have been designated as a community empowerment zone, but the economic activity of this area cannot be separated from the rest of Kitsap County. Therefore, for discussion and analytical purposes nondistressed areas are defined as those counties that are primarily urban, along with a few counties such as Island, San Juan, and Jefferson that have good recreational opportunities and a large population of retirees. There are, however, certain exceptions to this general observation, and in fact some rural counties, e.g., Asotin, Garfield and Lincoln, have never qualified for the distressed area program under the unemployment rate criterion. The overwhelming majority of the population of nondistressed areas lives in the primarily urban counties of Snohomish, King, Kitsap, Pierce, Thurston, Clark, and Spokane. Although some rural areas of the state are not currently considered distressed, and community empowerment zones are in urban areas, most of the distressed areas of the state are rural, and the discussion that follows reflects this fact.

NONDISTRESSED AREAS

The nondistressed areas of the state are primarily the urban counties of Snohomish, King, Kitsap, Pierce, Thurston, Clark, and Spokane, along with a few counties such as Island, San Juan, and Jefferson that have good recreational opportunities and a large population of retirees. These are the 17 counties in which unemployment rates have generally not exceeded the statewide average by more than 20 percent when averaged over the prior three years and have not qualified for the distressed area deferral.

The nondistressed areas have diversified economies. Nonmanufacturing sectors of the economy, where most of the growth in Washington employment occurred between 1985-95, are centered in the nondistressed areas. Most of Washington's manufacturing industries are also present in the nondistressed areas, although in the case of the lumber and wood products industry, it is primarily the administrative and managerial functions rather than production facilities that are found. For example, Weyerhaeuser has its corporate headquarters in Federal Way, giving King County a large share of Washington's lumber and wood products employment.

The aerospace industry, Washington's largest and most important manufacturing industry, is almost entirely situated in nondistressed areas near Seattle. High-tech manufacturing, the state's fastest growing manufacturing sector, is also concentrated in the nondistressed areas. As with aerospace, much of this activity is also in the central Puget Sound region, and Clark County is an important center for high-tech manufacturing as well. Companies located in Clark County include:

- Hewlett-Packard - printers: 2,700 employees
- SEH America - silicon wafers: 1,400 employees
- AVX - ceramic materials: 600 employees
- Sharp Microelectronics - liquid crystal displays: 600 employees
- American Kotobuki Electronics - TV and VCR components: 350 employees
- Linear Technology - semiconductors wafers: under construction
- Taiwan Semiconductor - semiconductors wafers: under construction

Most of the growth in Washington employment between 1985 and 1995 occurred in nonmanufacturing sectors of the economy, especially services and retail trade. Health services increased from 117,400 to 172,500 during this period. The fastest growth in the services sector occurred in software and data processing services. Legal, business, and accounting, engineering, and management services have also increased at above average rates.

Retail trade employment increased from 315,000 in 1985 to 438,900 in 1995. This reflects increases in income and spending power resulting from growth in the number of two-income households. In addition to providing higher household income, increases in the number of two-income households also reduced the time available for preparation of meals at home, further fueling growth of eating and drinking places, the largest and fastest growing retail trade subsector.

The tourism industry, another fast growing sector of the Washington economy, includes both retail trade and service components. About half of all sales by retailers in downtown Seattle are now made to tourists, and King County also includes by far the largest concentration of hotels and motels, as well as the state's major airport.

Along with the fastest growing sectors of the state economy, urban nondistressed areas also have cultural, educational, and entertainment attractions that are not typically found in rural areas. Several of the rural counties that are not economically distressed are those that have good opportunities for recreation and retirement living and that have experienced high levels of in-migration as a result. Two examples of this are Jefferson and San Juan Counties, which had the fastest population growth of any Washington counties between 1990 and 1995.

In summary, all of Washington's major economic sectors except agriculture and forest products are centered in the nondistressed areas, and even these industries are present to a certain extent. The nondistressed areas experienced strong economic growth during 1985-95. Because of the diversified economies of the nondistressed areas, when one or another sector was in a slowdown, some other sector or sectors were able to take up the slack. For example, from 1985 to 1990, aerospace employment increased from 76,100 to 116,200, leading to an economic boom in the central Puget Sound region. By 1995, aerospace employment had declined to 80,200. Although slower growth occurred in these years in the central Puget Sound region, growth in software, high-tech manufacturing, tourism, and other sectors was strong enough to more than offset cutbacks in aerospace employment.

DISTRESSED AREAS

As discussed above, distressed areas are primarily found in rural areas of the state. The economic base of these areas is usually very dependent on a single industry, either agriculture or forest products. Traditionally there have been 21-22 counties which have met the original county-wide definition of distressed for purposes of the sales tax deferral program (i.e. average unemployment rate which exceeds the statewide average by at least 20 percent) and most of these can be described as rural in nature. For purposes of the analysis of employment and wage growth in this chapter, distressed counties are assumed to number 22 and include the 18 counties which have been covered by the distressed areas sales tax deferral continuously since 1985, plus four additional counties (Adams, Benton, Mason and Wahkiakum) which have been in the program for the majority of the time.

The most significant problem for the distressed areas in recent years has been declining employment in the lumber and wood products industry. Peak employment for the industry was 55,100 in 1978. By 1988 this had fallen to 41,700, and there was a further decline to 35,600 in 1995. The loss of jobs in this industry has been devastating for many counties and communities whose economic base is almost completely tied to forest products. Two factors account for most of the decline in employment. First, greater worker productivity due to increased capital investment and newer logging and milling technology has resulted in higher output with fewer employees. Additionally, in the last decade there has been a large reduction in the supply of available timber because of heightened demand for environmental and wildlife protection.

In spite of the difficulties of the forest products industry, there are some positive economic trends in the distressed areas. The most important of these has been the pickup in output and prices of agricultural commodities. Between 1990 and 1995, total Washington personal income increased about 36 percent, but farm proprietor's income increased about 75 percent. Increases in food processing employment have occurred along with improved conditions in the agricultural industry. Between 1985 and 1995 the number of food processing jobs increased from 31,100 to 41,800. Although growth in agricultural output and food processing employment has resulted in improved economic conditions in many distressed areas, the seasonal nature of these industries does cause periods of unemployment for many workers.

In addition to improved conditions in the agriculture and food processing industries, there are numerous other factors that may be contributing to economic and population growth in rural areas:

- Some employers may be choosing to locate in rural areas because of what they perceive to be an anti-business climate in some urban areas.
- There may be less crime in rural areas.
- Schools are better, or perceived to be better.
- Housing is cheaper.
- Life is slower paced and more relaxed.
- Some rural areas have outstanding recreational opportunities.
- Telecommuting or long-distance commuting means employees can live in rural areas while working for big-city employers.
- The North American Free Trade Agreement has been a plus for communities near the Canadian border.
- Distressed area programs help rural areas in Washington attract new industries.

In summary, although there are some positive economic trends in the distressed areas, they have been hurt by declining employment in lumber and wood products, the seasonal nature of agriculture and food processing, and the fact that Washington's high growth industries such as software, high-tech manufacturing, and tourism are centered in urban areas.

EMPLOYMENT AND WAGE GROWTH - 1985 to 1994

The following analysis is based on covered employment and wage data as reported by the Washington State Employment Security Department. Covered employees are those covered by the State Employment Security Act. The last complete year for which data on covered employment is currently available is 1994; data for 1995 is expected to be available early in 1997.

During the 1985-94 period there was a significant change in coverage of agricultural workers; many more employees in these sectors are now "covered" whereas most were not in 1985. In order to provide continuity in the data, workers in the agriculture, forestry, and fishing sector have been removed from the analysis, with those remaining labeled as "nonagricultural" workers.

Covered employment data are affected by shifts in the classification of workers. For example, in 1991 about 8,000 workers at the Hanford nuclear facility in Benton County were reclassified from chemicals (a manufacturing sector), to engineering services (a nonmanufacturing sector). As a result of this and numerous other changes (most of which are far smaller), data on manufacturing and nonmanufacturing employment are not completely comparable over time. In tables 7-2, 7-4, and 7-5 at the end of this chapter, Hanford employment has been removed from the 1985 figures in order to provide comparability in the data.

Some of the major findings relating to employment and wages in distressed counties are summarized below. Further details are contained in Tables 7-1 through 7-7 at the end of this chapter.

1. Excluding workers in the agricultural, forestry and fishing industries, total employment in Washington increased by 37 percent from 1985 to 1994 (Table 7-1); the number of jobs reached 2.2 million by 1994. Growth in jobs was somewhat lower in distressed counties (33.5 percent) than in nondistressed areas (37.7 percent). If there is a discernible pattern to the growth in employment with respect to distressed and nondistressed counties it would seem that the distressed areas tend to be concentrated in the mid and low range of employment growth. As seen in Table 7-1, few distressed counties recorded high employment growth, Ferry and Skagit counties being exceptions.

2. Since a high proportion of the growth in total employment occurs in relatively low paying segments of service industries, it may be more instructive to look at job growth in only the manufacturing sector. Table 7-2 indicates a more disparate pattern. Statewide growth in manufacturing employment over the ten-year period equaled 17.4 percent. However, nondistressed counties grew by 19.6 percent, whereas manufacturing jobs in distressed counties grew by only 7.7 percent. While several of the distressed counties experienced

significant increases in manufacturing jobs (Grant, Adams, Yakima, etc.), nearly one-half of them actually lost jobs in this sector over the decade.

3. Distressed area nonagricultural employment increased from 285,482 to 381,067. This is an average annual increase of 3.3 percent. Nondistressed area nonagricultural employment increased from 1,328,884 to 1,829,992, an average annual increase of 3.6 percent.

4. Distressed area manufacturing employment increased from 53,469 to 57,608. This is an average annual increase of 0.8 percent. Nondistressed area manufacturing employment increased from 230,716 to 275,939, an average annual increase of 2.0 percent.

   In distressed areas, counties dependent on the timber industry lost manufacturing employment. Grays Harbor manufacturing employment declined from 5,704 to 4,218, and Clallam declined from 2,986 to 2,055. Counties in which the primary industries are agriculture and food processing gained the most manufacturing jobs. Yakima County manufacturing employment increased from 7,892 to 10,578, and Grant increased from 2,306 to 3,730.

   In nondistressed areas, Snohomish County had the largest increase in manufacturing employment, from 29,105 to 52,947, primarily as a result of growth in the aerospace industry. Clark County manufacturing employment increased from 14,316 to 18,628 as a result of growth in high-tech manufacturing of products such as computer equipment. Spokane County manufacturing employment increased from 16,439 to 20,844 as a result of the overall growth and diversification of the county economy. Growth occurred in aerospace, aluminum, food processing, and high-tech sectors. Growth was also widespread in King County, where manufacturing employment increased from 132,169 to 139,827, with increases occurring in a variety of sectors including aerospace, food processing, printing, and high-tech.

5. Turning to wage growth, Table 7-3 looks at the growth in total wages paid in Washington, excluding the agricultural, forestry and fishing industries, over the decade since 1985. Total wages paid in the state nearly doubled to $59.3 billion. The wage growth in nondistressed counties was 95.1 percent, but distressed counties increased at a slower rate of 75.1 percent. With a few exceptions, most of the distressed counties recorded generally low growth rates, compared with the nondistressed counties.

6. The wage growth disparity is significantly greater when looking at manufacturing wages (Table 7-4). Nondistressed counties experienced a 63.9 percent growth in manufacturing wages, whereas growth in the 22 distressed counties was only 23.7 percent. The statewide average manufacturing wage increased from $26,500 to $35, 919 over the

decade (Table 7-5). The average for nondistressed areas grew by 37.0 percent to $37,284, whereas the average for distressed counties increased by only 25.4 percent to $29,381. Again, there is no clearly discernible pattern to the increase in wages. The leader in manufacturing wage growth was Pend Oreille; however, as discussed below, this was skewed by a single facility. At the other extreme, Garfield County - a nondistressed area - lost all of its previous 14 manufacturing jobs.

7. Distressed area manufacturing average annual wages increased from $23,431 to $29,381. This is an average annual increase of 2.5 percent. Nondistressed area manufacturing average annual wages increased from $27,211 to $37,284, an average annual increase of 3.6 percent.

In distressed areas wage trends were essentially the opposite of employment trends. Wages in counties dependent on the timber industry had the largest gains. In Grays Harbor County, wages increased from $23,910 to $31,995, and in Clallam County wages increased from $23,810 to $31,278. These increases reflect the changes taking place in the lumber and wood products industry, where more output is now being produced by fewer workers. Industry workers are now more productive and need more skills than previously, and so wages have increased. There was also a very large increase in wages in Pend Oreille County, from $16,608 to $44,954, as a result of a new paper mill in Usk.

Distressed area counties in which the primary manufacturing industry is food processing had the smallest increases in wages. For example, in Yakima County wages increased from $19,650 to $23,830. Many jobs in the food processing industry are seasonal, and do not pay as well as jobs in industries which operate year round.

In nondistressed areas, Snohomish County had the largest increase in manufacturing wages, from $28,160 to $41,056, as a result of higher aerospace employment. Growth of wages was relatively weak in Clark County, where there was an increase from $25,012 to $32,562. High-tech manufacturing industries provide many outstanding employment opportunities, but there are also large numbers of assembly jobs for which wages are comparatively low. Of course, a wage of $32,562, which was the average for Clark County manufacturing workers in 1994, is only low in comparison with manufacturing wages in other nondistressed areas of the state.

CHANGE IN UNEMPLOYMENT RATES

Because of the importance of unemployment rates for the distressed area programs, it may be instructive to compare the change in the county rates over the period these incentive programs have been in effect. Table 7-6 contains the calculated average rates for the initial year of the

distressed area deferral, calendar year 1985 (based on data for 1982-1984), and the most recent year, calendar year 1996 (based on figures for 1993-1995).

Over this period unemployment rates dropped in all counties (except Adams which remained the same) because of an improving state economy. However, county unemployment rates in relation to the statewide average improved in only 9 of the traditionally distressed counties, but it become worse in 13 counties. In 1985, all of the 22 counties that have been considered to be traditionally distressed had unemployment rates in excess of the 10.9 percent statewide average. By 1996, unemployment rates in 20 of these counties remained above the 6.8 percent average, while one (Wahkiakum) equaled the statewide average and one (Benton) dropped to below the average. The change in the relationship between county unemployment rates and the statewide average for the 22 distressed counties over the twelve year period is summarized below.

Distressed Counties with Improving Unemployment*

Benton	from 122% of state average to 96%
Chelan	from 143% of state average to 141%
Clallam	from 149% of state average to 137%
Cowlitz	from 136% of state average to 128%
Lewis	from 140% of state average to 137%
Okanogan	from 175% of state average to 156%
Skamania	from 209% of state average to 169%
Stevens	from 159% of state average to 137%
Wahkiakum	from 125% of state average to 100%

Distressed Counties with Worsening Unemployment*

Adams	from 116% of state average to 185%
Columbia	from 138% of state average to 188%
Ferry	from 173% of state average to 194%
Franklin	from 132% of state average to 147%
Grant	from 129% of state average to 146%
Grays Harbor	from 135% of state average to 184%
Kittitas	from 125% of state average to 135%
Klickitat	from 171% of state average to 182%
Mason	from 120% of state average to 125%
Pacific	from 151% of state average to 157%
Pend Oreille	from 176% of state average to 190%
Skagit	from 135% of state average to 141%
Yakima	from 139% of state average to 185%

*Relative to the statewide average.

For nondistressed counties, the relationship between county unemployment rates and the statewide average improved in 8 counties but became worse in 9 counties. In 1985, only 6 of the 17 nondistressed counties exceeded the 10.9 percent statewide average (and all of these were quite close to the average). By 1996, four of the nondistressed counties exceeded the 6.8 percent statewide average (again, all were close to the average).

There is a wide margin for error in estimating unemployment at the county level. Nonetheless, the changes in unemployment rates since the mid-1980s suggest that most distressed counties have not made a fundamental improvement in unemployment. Although it is difficult to generalize from these data, it would appear that more structural phenomena are influencing local economies and that the tax incentive programs, while beneficial for the participating firms, have not been sufficient to overcome these basic economic trends. In general, the decline of the timber industry has continued to impact employment in distressed areas. In contrast, growth in other sectors such as computer software, high-technology industries and tourism have benefited principally the nondistressed areas.

Economic Diversification

Tax incentive programs have resulted in increased diversification particularly in the economies of those counties that are considered distressed because of high rates of unemployment. Although there are exceptions, in most cases the employment impact of tax incentive programs has been small. Of course, since distressed counties are mainly located in rural areas that do not have a large population, even a small increase in employment can make a difference.

The list on the following page shows industries that have taken advantage of tax incentives and located or expanded in counties where these industries have not historically been an important part of the economic base, thereby adding to diversification of the local economy. The references are based on the firms' description of manufacturing or R&D activity in their initial applications for the tax incentive programs. Inclusion in this list does not necessarily imply that the firms still remain in business.

This information indicates that many of the distressed counties were able to add employment in new manufacturing industries which were not previously present in those counties to a significant degree. However, there is no convenient way to determine if these firms are still in operation and whether, in fact, these jobs became "permanent" additions to the county economy. Further, there are no data which indicates the degree to which county employment may have been "diversified" away from the previously dominant firms to other manufacturers and other types of businesses.

MAJOR NEW BUSINESS ACTIVITY IN SELECTED COUNTIES BASED ON TAX INCENTIVE PROGRAM APPLICATIONS

Chelan
primary metals
apparel
sporting goods
concrete

Clallam
stone, clay, glass
iron & steel
sporting goods
musical instruments
industrial machinery

Columbia
data processing services

Cowlitz
boat building
sporting goods
research & testing services
industrial machinery
construction machinery
plastics
fabricated metals
hand tools
motor vehicles/parts
chemicals
cut stone

Franklin
boat building
data processing services

Grant
data processing services
brick
chemicals
motor vehicles/parts
industrial machinery
iron & steel
wood products
aluminum
boxes
electronic components

Grays Harbor
musical instruments
chemicals

Grays Harbor (cont.)
industrial machinery
boat building
preserved fruit/vegetables
plastics
research & testing services
structural metals

Klickitat
data processing services
chemicals
plastics
construction machinery
research & testing services
sporting goods

Lewis
tire recycling
frozen foods
bicycles
plastics
brick & glass
railroad equipment
apparel
structural metals
data processing services
business services
motor vehicles/parts
iron & steel
yarn
beverages
medicinal drugs
furniture
chemicals

Mason
wine
communication equip.
preserved fruit/vegetables
fabricated metals
aerospace

Okanogan
recreational vehicles
computer equipment

Pacific
boat building & plastics

Pend Oreille
structural metals

Skagit
engines
chemicals
boat building
electric lighting/wiring
fabricated metals
industrial machinery
engineering services
sporting goods
aerospace
shoes
furniture
electric instruments
plastics
metal working equip.

Skamania
boat building
sporting goods
medicinal drugs
motor vehicles/parts
industrial machinery

Stevens
apparel
fabricated metals

Yakima
recreational vehicles
plastics
fabricated metals
furniture
glass
sporting goods
electronic components
ordnance
printing
household equipment
metal working equip.
hand tools
apparel
engines
farm machinery
industrial machinery

It also instructive to look at economic diversification on an intercounty basis. One goal of the distressed area programs was to encourage investment and hence new jobs in the rural counties of the state which have traditionally suffered from higher rates of unemployment. Table 7-7 analyzes the change in the distribution of manufacturing jobs over the first decade of the programs. It indicates that the 17 nondistressed counties increased their share of total manufacturing jobs from 81.2 percent to 82.7 percent. Conversely, the share for the 22 distressed counties dropped from 18.8 percent to 17.3 percent.

Of the 22 traditionally distressed counties only nine increased their share of the statewide total: Adams, Benton, Columbia, Franklin, Grant, Okanogan, Skagit, Stevens, and Yakima. For most of these counties, the increase in their percentage of the total was nominal.

Although King County remains the dominant county for manufacturing employment, it's share declined from 46.5 to 41.9 percent of the statewide total. However, Snohomish County more than made up for King's decline, as it grew from 10.2 to 15.9 percent. Together, the top five counties in manufacturing employment - King, Snohomish, Pierce, Spokane and Clark - represented 74.9 percent of the state total in 1985; by 1994 their share had increased slightly to 76 percent.

The implication of the county level employment statistics is that most distressed areas have not made significant relative gains in manufacturing jobs. From the perspective of diversification, i.e. shifting a greater share of job growth to distressed counties, it appears that these programs have not made a substantial impact. Of course, it could be argued that the job growth which has occurred might have been lessened in the absence of these programs.

Table 7-1
GROWTH IN EMPLOYMENT (Ex. AG., FORESTRY, FISHING) BY COUNTY
Calendar Year 1985 to 1994 Change, Ranked by Decreasing Growth Rates
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Percent Change
Snohomish	104,693	178,544	70.5%
Jefferson	3,760	6,395	70.1
San Juan	2,341	3,857	64.8
Clark	56,681	90,779	60.2
Whatcom	35,724	56,909	59.3
Ferry*	1,165	1,853	59.1
Skagit*	20,848	32,611	56.4
Asotin	2,774	4,336	56.3
Island	8,019	12,502	55.9
Thurston	46,632	72,270	55.0
Grant*	13,761	19,867	44.4
Okanogan*	8,725	12,377	41.9
Franklin*	10,506	14,762	40.5
Benton*	40,991	57,017	39.1
Stevens*	6,543	9,032	38.0
Pierce	149,212	204,624	37.1
Douglas	3,839	5,260	37.0
Mason*	7,414	10,125	36.6
Yakima*	51,311	69,858	36.1
Lewis*	16,826	22,208	32.0
Spokane	126,145	166,133	31.7
Kitsap	51,126	67,340	31.7
King	707,297	924,545	30.7
Chelan*	19,881	25,898	30.3
Pacific*	4,179	5,412	29.5
Kittitas*	7,738	9,962	28.7
Cowlitz*	26,594	34,120	28.3
Whitman	10,624	13,383	26.0
Clallam*	14,551	18,047	24.0
Pend Oreille*	1,820	2,228	22.4
Adams*	4,022	4,915	22.2
Lincoln	1,963	2,317	18.0
Klickitat*	4,249	5,011	17.9
Columbia*	1,253	1,455	16.1
Walla Walla	17,450	20,141	15.4
Garfield	604	657	8.8
Skamania*	1,762	1,882	6.8
Grays Harbor*	20,680	21,810	5.5
Wahkiakum*	663	617	(6.9)
Subtotals:			
Nondistressed Counties	1,328,884	1,829,992	37.7
Distressed Counties	285,482	381,067	33.5
STATE TOTALS	1,614,366	2,211,059	37.0%

Table 7-2
GROWTH IN MANUFACTURING EMPLOYMENT BY COUNTY
Calendar Year 1985 to 1994 Change, Ranked by Decreasing Growth Rates
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Percent Change
Snohomish	29,105	52,947	81.9%
Asotin	175	304	73.7
Whitman	159	267	67.9
Thurston	3,238	5,360	65.5
Grant*	2,306	3,730	61.8
Jefferson	475	767	61.5
Adams*	742	1,095	47.6
San Juan	163	232	42.3
Yakima*	7,892	10,578	34.0
Benton* (see text)	3,218	4,264	32.5
Clark	14,316	18,628	30.1
Spokane	16,439	20,844	26.8
Skagit*	3,559	4,459	25.3
Columbia*	379	470	24.0
Whatcom	6,943	8,602	23.9
Franklin*	1,015	1,230	21.2
Okanogan*	978	1,180	20.7
Stevens*	1,875	2,224	18.6
Kitsap	1,668	1,921	15.2
Lewis*	3,713	4,211	13.4
Pacific*	1,159	1,236	6.6
King	132,169	139,827	5.8
Walla Walla	4,080	4,238	3.9
Cowlitz*	9,094	9,397	3.3
Pierce	20,911	21,301	1.9
Mason*	1,916	1,892	-1.3
Douglas	150	136	-9.3
Chelan*	2,710	2,437	-10.1
Ferry*	259	226	-12.7
Kittitas*	759	647	-14.8
Lincoln	57	46	-19.3
Island	654	519	-20.6
Klickitat*	1,626	1,288	-20.8
Grays Harbor*	5,704	4,218	-26.1
Clallam*	2,986	2,055	-31.2
Pend Oreille*	655	396	-39.5
Wahkiakum*	229	128	-44.1
Skamania*	695	247	-64.5
Garfield	14	0	-100.0
Subtotals:			
Nondistressed Counties	230,716	275,939	19.6
Distressed Counties	53,469	57,608	7.7
STATE TOTALS	284,185	333,547	17.4%

Table 7-3
GROWTH IN TOTAL WAGES (Ex. AG., FORESTRY, FISHING) BY COUNTY
Calendar Year 1985 to 1994 Change, Ranked by Decreasing Growth Rates
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Percent Change
San Juan	$ 27,842,581	$ 71,035,538	155.1%
Snohomish	2,007,391,816	5,046,296,632	151.4
Ferry*	16,407,644	41,233,887	151.3
Asotin	34,823,424	80,063,598	129.9
Jefferson	52,935,364	117,478,017	121.9
Thurston	843,022,675	1,847,157,083	119.1
Clark	1,031,730,085	2,233,825,442	116.5
Whatcom	584,509,569	1,245,107,865	113.0
Island	116,179,043	246,815,681	112.4
Skagit*	344,222,605	716,022,661	108.0
Franklin*	163,453,851	333,416,515	104.0
Pend Oreille*	27,131,845	52,883,815	94.9
Grant*	215,120,349	411,972,351	91.5
King	14,982,411,515	28,403,266,608	89.5
Pierce	2,609,659,095	4,893,916,291	87.5
Yakima*	783,090,451	1,453,465,531	85.6
Benton*	951,116,922	1,738,601,044	82.8
Spokane	2,103,660,470	3,806,251,810	80.9
Mason*	126,626,407	224,236,029	77.1
Chelan*	321,620,660	568,819,803	76.9
Douglas	57,552,196	101,452,473	76.3
Kitsap	963,782,123	1,694,862,661	75.9
Stevens*	109,795,515	190,614,044	73.6
Pacific*	56,522,413	97,821,499	73.1
Okanogan*	140,065,055	241,699,412	72.6
Lewis*	288,899,018	493,735,960	70.9
Whitman	180,429,143	298,259,152	65.3
Cowlitz*	545,415,600	884,171,713	62.1
Kittitas*	111,927,933	181,229,618	61.9
Adams*	55,166,987	88,871,758	61.1
Clallam*	239,362,533	378,717,820	58.2
Lincoln	26,771,469	41,652,766	55.6
Walla Walla	289,354,376	446,347,324	54.3
Columbia*	16,638,604	25,582,755	53.8
Garfield	8,404,005	12,256,009	45.8
Klickitat*	79,258,829	111,635,400	40.8
Grays Harbor*	369,673,492	479,637,502	29.7
Skamania*	30,093,083	37,489,443	24.6
Wahkiakum*	12,809,935	11,581,238	(9.6)
Subtotals:			
Nondistressed Counties	25,920,458,949	50,586,044,950	95.1
Distressed Counties	5,004,419,731	8,763,439,798	75.1
STATE TOTALS	$30,924,878,680	$59,349,484,748	91.9%

Table 7-4
GROWTH IN MANUFACTURING WAGES BY COUNTY
Calendar Year 1985 to 1994 Change, Ranked by Decreasing Growth Rates
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Percent Change
Whitman	$2,394,925	$7,186,217	200.1%
Snohomish	819,609,587	2,173,784,391	165.2
San Juan	2,436,531	6,200,927	154.5
Thurston	72,626,956	168,484,832	132.0
Grant*	43,800,386	97,390,790	122.4
Jefferson	10,953,103	22,587,201	106.2
Adams*	10,925,874	22,144,728	102.7
Asotin	3,209,587	6,501,221	102.6
Franklin*	16,832,532	32,199,092	91.3
Benton* (see text)	75,376,255	139,001,421	84.4
Spokane	356,013,155	625,959,398	75.8
Clark	358,072,936	606,568,489	69.4
Columbia*	5,192,810	8,533,580	64.3
Pend Oreille*	10,878,380	17,801,622	63.6
Yakima*	155,077,451	252,077,975	62.5
Pacific*	17,256,212	27,150,261	57.3
Whatcom	173,446,325	269,812,627	55.6
Kitsap	34,863,172	50,802,097	45.7
Skagit*	90,277,602	130,914,834	45.0
King	3,847,873,649	5,566,782,134	44.7
Stevens*	47,337,019	66,778,548	41.1
Lewis*	79,952,153	111,527,677	39.5
Walla Walla	84,116,373	117,074,052	39.2
Cowlitz*	272,435,424	359,299,255	31.9
Pierce	494,380,178	648,643,512	31.2
Mason*	48,003,746	59,116,343	23.1
Okanogan*	23,211,987	27,990,297	20.6
Ferry*	4,994,837	5,599,417	12.1
Lincoln	649,764	719,713	10.8
Kittitas*	13,523,323	14,878,753	10.0
Chelan*	66,096,128	70,108,139	6.1
Douglas	3,255,159	3,359,164	3.2
Grays Harbor*	136,384,694	134,955,333	-1.0
Island	13,921,606	13,710,357	-1.5
Klickitat*	43,493,123	40,745,400	-6.3
Clallam*	71,097,278	64,277,211	-9.6
Skamania*	13,254,481	6,750,190	-49.1
Wahkiakum*	7,429,261	3,354,831	-54.8
Garfield	184,375	0	-100.0
Subtotals:			
Nondistressed Counties	6,278,007,381	10,288,176,332	63.9
Distressed Counties	1,252,830,956	1,550,239,445	23.7
STATE TOTALS	$7,530,838,337	$11,980,772,029	59.1%

Table 7-5
GROWTH IN AVERAGE MANUFACTURING WAGES BY COUNTY
Calendar Year 1985 to 1994 Change, Ranked by Decreasing Growth Rates
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Percent Change
Pend Oreille*	$16,608	$44,954	170.7%
San Juan	14,948	26,728	78.8
Whitman	15,062	26,915	78.7
Franklin*	16,584	26,178	57.9
Pacific*	14,889	21,966	47.5
Snohomish	28,160	41,056	45.8
Skamania*	19,071	27,329	43.3
Thurston	22,430	31,434	40.1
Benton* (see text)	23,423	32,599	39.2
Spokane	21,657	30,031	38.7
Grant*	18,994	26,110	37.5
Adams*	14,725	20,223	37.3
Lincoln	11,399	15,646	37.3
King	29,113	39,812	36.8
Walla Walla	20,617	27,625	34.0
Grays Harbor*	23,910	31,995	33.8
Columbia*	13,701	18,157	32.5
Clallam*	23,810	31,278	31.4
Clark	25,012	32,562	30.2
Kittitas*	17,817	22,997	29.1
Pierce	23,642	30,451	28.8
Ferry*	19,285	24,776	28.5
Jefferson	23,059	29,449	27.7
Cowlitz*	29,958	38,236	27.6
Kitsap	20,901	26,446	26.5
Whatcom	24,981	31,366	25.6
Mason*	25,054	31,245	24.7
Island	21,287	26,417	24.1
Lewis*	21,533	26,485	23.0
Yakima*	19,650	23,830	21.3
Stevens*	25,246	30,026	18.9
Klickitat*	26,749	31,635	18.3
Chelan*	24,390	28,768	17.9
Asotin	18,340	21,386	16.6
Skagit*	25,366	29,360	15.7
Douglas	21,701	24,700	13.8
Okanogan*	23,734	23,721	-0.1
Wahkiakum*	32,442	26,210	-19.2
Garfield	13,170	0	--
Subtotals:			
Nondistressed Counties	27,211	37,284	37.0
Distressed Counties	23,431	29,381	25.4
STATE TOTALS	$26,500	$35,919	35.5%

Table 7-6
COMPARISON OF AVERAGE UNEMPLOYMENT RATES BY COUNTY
Calendar Year 1985 and 1996, Ranked by Decreasing Rate of Improvement
(* = traditionally distressed counties)

County	CY 1985	CY 1996	Change
Skamania*	22.8	11.5	(11.3)
Okanogan*	19.1	10.6	(8.5)
Stevens*	17.3	9.3	(8.0)
Clallam*	16.2	9.3	(6.9)
Benton*	13.3	6.5	(6.8)
Wahkiakum*	13.6	6.8	(6.8)
Pend Oreille*	19.2	12.9	(6.3)
Klickitat*	18.6	12.4	(6.2)
Clark	11.1	5.0	(6.1)
Cowlitz*	14.8	8.7	(6.1)
Asotin	10.9	4.9	(6.0)
Chelan*	15.6	9.6	(6.0)
Lewis*	15.3	9.3	(6.0)
Pacific*	16.5	10.7	(5.8)
Ferry*	18.9	13.2	(5.7)
Skagit*	14.7	9.6	(5.1)
Island	9.7	4.9	(4.8)
Pierce	11.5	6.7	(4.8)
Mason*	13.1	8.5	(4.6)
Spokane	10.1	5.5	(4.6)
Thurston	11.1	6.5	(4.6)
Franklin*	14.4	10.0	(4.4)
Whatcom	11.9	7.5	(4.4)
Grant*	14.1	9.9	(4.2)
Kittitas*	13.6	9.2	(4.2)
Douglas	11.6	7.5	(4.1)
Snohomish	10.4	6.4	(4.0)
Jefferson	11.0	7.9	(3.9)
Walla Walla	9.7	6.3	(3.4)
King	8.9	5.6	(3.3)
Yakima*	15.1	12.6	(2.5)
Columbia*	15.0	12.8	(2.2)
Grays Harbor*	14.7	12.5	(2.2)
Garfield	7.6	5.7	(1.9)
Whitman	4.0	2.4	(1.6)
Kitsap	7.9	6.5	(1.4)
San Juan	8.1	6.9	(1.2)
Lincoln	6.8	6.1	(0.7)
Adams*	12.6	12.6	0.0
STATE AVERAGE	10.9	6.8	(4.1)

Table 7-7
COUNTY SHARE OF MANUFACTURING EMPLOYMENT
Calendar Year 1985 and 1994
(* = traditionally distressed counties)

County	CY 1985	CY 1994	Increased Share
Adams*	0.26%	0.33%	Yes
Asotin	0.06	0.09	Yes
Benton* (see text)	1.13	1.28	Yes
Chelan*	0.95	0.73	No
Clallam*	1.05	0.62	No
Clark	5.04	5.58	Yes
Columbia*	0.13	0.14	Yes
Cowlitz*	3.20	2.82	No
Douglas	0.05	0.04	No
Ferry*	0.09	0.07	No
Franklin*	0.36	0.37	Yes
Garfield	---	---	No
Grant*	0.81	1.12	Yes
Grays Harbor*	2.01	1.26	No
Island	0.23	0.16	No
Jefferson	0.17	0.23	Yes
King	46.51	41.92	No
Kitsap	0.59	0.58	No
Kittitas*	0.27	0.19	No
Klickitat*	0.57	0.39	No
Lewis*	1.31	1.26	No
Lincoln	0.02	0.01	No
Mason*	0.67	0.56	No
Okanogan*	0.34	0.35	Yes
Pacific*	0.41	0.37	No
Pend Oreille*	0.23	0.12	No
Pierce	7.36	6.39	No
San Juan	0.06	0.07	Yes
Skagit*	1.25	1.34	Yes
Skamania*	0.24	0.07	No
Snohomish	10.24	15.87	Yes
Spokane	5.78	6.25	Yes
Stevens*	0.66	0.67	Yes
Thurston	1.14	1.61	Yes
Wahkiakum*	0.08	0.04	No
Walla Walla	1.44	1.27	No
Whatcom	2.44	2.58	Yes
Whitman	0.06	0.08	Yes
Yakima*	2.78	3.17	Yes
Subtotals:			
Nondistressed Counties	81.19	82.73	Yes
Distressed Counties	18.81	17.27	No
STATE TOTALS	100.00%	100.00%	---

Chapter Eight
CONCLUSIONS

Synopsis of Program Impacts

Through the first eleven years of the three tax incentive programs, an estimated 1,279 firms submitted applications and 776 of these were approved and the investments proceeded toward completion. The balance either were denied prior to commencement or revoked during construction as not meeting program requirements, were withdrawn by the company because the projects did not materialize, or became moot as firms subsequently went out of businesses.

Based on the 776 successful projects through June 30, 1996, the total investment associated with the programs has amounted to $3.2 billion and, according to the firms, some 23,348 new jobs have resulted. Payment of approximately $128.8 million in state and local sales tax has been deferred, while the direct reduction in state and local revenues (excluding interest on the deferred sales tax) has amounted to $100 million.

At the county level the distressed area sales tax deferral/exemption program was utilized in all distressed counties plus projects in a few of the nondistressed areas (due to the extended coverage of the program). Yakima County had the most projects, 67, which participated, while the largest tax impact, $23.8 million, occurred in Cowlitz County. According to the applicants the most new jobs, 1,405, were created in Yakima County, followed by 1,308 in Skagit County.

For the new manufacturer program four counties led in participation: Clark and King with 17 projects each; Whatcom with 16 and Pierce with 12. However, the largest amount of deferred sales tax occurred in Pend Oreille County; all $22.8 million was attributable to a single project. In terms of anticipated new jobs, Clark County led the way with 1,012, followed by 851 in King County.

Three counties had one-half of all participants in the B&O jobs credit program: Yakima with 58 projects, Skagit with 54 and Lewis with 52. The largest impact on state B&O tax revenues were attributable to projects in Yakima and Grays Harbor counties. The B&O credit was expected to produce the most new jobs in Yakima County, 1,461; Grays Harbor County, 1,358 and Skagit County, 1,184.

The first section of Chapter 6 looked at the issue of job creation for participants in the tax incentive programs. It compared the original estimate of new employment submitted by the applicants (23,348 jobs) with a calculated estimate of "net" new jobs by the Department (5,997 jobs). The reason that the latter estimate is barely one-quarter of the applicants' estimate has to

do with a variety of difficulties experienced in matching employment records for the participants. Furthermore, many of the firms subsequently went out of business, some of the new jobs for these projects may have been transferred from the applicants' previously existing facilities and the eventual need for new jobs may have decreased due to subsequent changes in market conditions.

The pattern of job growth for participants indicated an initial increase in employment in the first year. Firms that were in the distressed area deferral experienced an average increase of 4.42 percent in the first year after projects were completed; firms in the distressed area deferral and the jobs credit had a higher initial growth of 7.39 percent. Participants in only the jobs credit program grew by an average of 7.63 percent. New manufacturer deferral recipients increased their employment by an average of 18.6 percent.

However, employment growth rates for program participants typically declined in subsequent years. In fact, by the fifth year after completion of the investment project, average growth in new employees was negative for participants in the jobs credits and the new manufacturer programs. Negative growth rates were also experienced in the fourth year for firms in the distressed area deferral.

Compared with nonparticipants in the same industry in Washington, there is no question that initial employment growth was significantly higher in the initial years following project completion. Also, both the statewide average growth for the same industries and the average for program participants was significantly higher than national trends in employment growth which were generally negative.

Analysis of employment growth for participants in relation to the state and national experience for firms in the same industries lead to the following conclusion: distressed area participants tended to correlate with economic changes at the national level, whereas new manufacturer participants followed growth patterns more typical to Washington state. In general, the growth rates for these industries nationally were much slower or even negative, compared with similar industries at the state level. The implication is that the distressed area program was utilized to a relatively greater degree by firms in industries which were declining nationally, whereas the new manufacturer program attracted the type of firms whose potential for employment growth followed Washington trends which reflected generally higher employment growth. In essence, the distressed area firms were representative of industries with declining employment, but the new manufacturer program attracted firms with greater growth potential.

Efforts were made to analyze whether the tax incentive programs paid for themselves, i.e., whether the increased taxes resulting from the investment and the new jobs eventually offset the initial reduction in tax revenues. If so, how long does it take for the pay-back to occur?

There are major problems in estimating pay-backs. Probably the most significant is the inability to analyze firms that participated and compare their results with similarly situated firms which did not. Further, it was difficult to obtain credible information on employment and to verify the actual number of new jobs which resulted from participation in the programs. Also, because the analysis had to exclude bankrupt companies and other firms which went out of business or were merged with other firms, the time periods indicated for the pay-backs to occur are clearly shorter than what actually took place.

Despite these difficulties, pay-back times for the three programs are estimated in Table 6-3. For the distressed area deferral alone (firms that did not also take a B&O tax jobs credit), a range of from 7 to 10.4 years was required for additional revenue growth to exceed the amount of the deferral. The pay-back for firms that took only the jobs credit required nearly eleven years but this finding was only relevant for firms still in existence after three years; after five years the new jobs had apparently disappeared for most of the jobs credit participants. Firms that participated in both distressed area programs (deferral and jobs credit) required a period from 5.5 to 6.3 years for the pay-back to occur. Companies that were in the new manufacturer program required approximately 3.8 - 4.3 years for the pay-back. The lower pay-back period for this program is a result of greater employment growth for these firms and the fact that the tax cost was lower (since only a deferral of sales tax was involved).

Participating firms were surveyed to learn about the amount of investment in research and development that was stimulated by the tax incentive programs. Only participants in the sales tax programs reported any impacts on R&D expenditures. Approximately 38 percent of firms in the distressed area deferral/exemption reported increasing their investment in R&D, while about 32 percent of the new manufacturer deferrals indicated increased R&D investment. Because of the nature of the survey and the varied types of responses, there is no way to produce a meaningful total of the increased amount of R&D investment.

Similarly, firms were asked if they were able to broaden their product lines as a result of the tax incentive programs. Responses indicated a significant expansion in products. Approximately one-half of those in both of the distressed area programs expected to broaden product lines. About 44 percent of those in the new manufacturer program either had already diversified products or anticipated doing so as a result of the tax incentive. Among the types of manufacturers that participated in the programs, the most product diversification appears in the lumber and wood products and food products industries.

Chapter 7 examines various economic indicators at the county level over the life of the tax incentive programs to see if any significant results can be detected. Of course, it is impossible to attribute any observable changes solely to these programs, because it is not known how many of these investments would have taken place in the absence of the tax incentives. Nonetheless, it is

apparent from the countywide employment and wage data that distressed areas still lag the rest of the state.

During the decade from 1985 to 1995 the majority of job growth occurred in nonmanufacturing industries. Health services and computer software were leaders in employment growth and much of these new jobs were located in urban, nondistressed areas. Retail trade and tourism were other fast growing sectors. In contrast, employment in the lumber and wood products industry declined significantly over this period, due to increased output per worker (hence the need for fewer workers) and reduced timber supply. Because this industry is largely centered in rural, economically distressed counties, the impact for these areas has been severe.

Total employment in Washington (excluding agriculture, forestry and fishing for which data are not comparable) grew by 37 percent from 1985 to 1994. The rate of job growth was higher in nondistressed areas, 37.7 percent, than for the 22 traditionally distressed counties, 33.5 percent. The disparity is even greater when job growth in the manufacturing sector is examined. Overall, manufacturing jobs in the state increased by 17.4 percent, but nondistressed counties grew by 19.6 percent, whereas economically distressed counties grew by only 7.7 percent. Since the tax incentive programs are focused on the manufacturing sector and particularly on distressed counties, a higher rate of job growth for manufacturing firms in these counties might have been expected.

Similar patterns are seen in wage growth. For all industries wages grew by 91.9 percent, but the change was twenty percentage points greater in nondistressed areas (95.1 percent) than for distressed counties (75.1 percent). The change in wages paid by manufacturers was even more dramatic than for all industries. Manufacturing wages grew by 63.9 percent in nondistressed counties but only 23.7 percent in distressed counties. In fact, manufacturing wages paid actually decreased from 1985 to 1994 in seven counties - five of which are distressed counties. The countywide average wage paid by manufacturers increased by 37 percent to $37,284 in the 17 nondistressed counties; in distressed counties manufacturing wage growth increased by only 25.4 percent to $29,381. The disparity in manufacturing wages has actually increased over the ten year period. In 1985 the average manufacturing worker in distressed areas was paid 86 percent of the amount paid in nondistressed counties. By 1994 the typical manufacturing worker in distressed counties was paid less than 79 percent of his/her counterpart in nondistressed counties. Again, if the hypothesis is that the tax incentive programs would have helped distressed counties, greater job and wage growth in these areas could have been expected.

The most significant criterion for eligibility in the distressed area programs is the rate of unemployment. If the tax incentive programs are effective, one would expect a reduction in the countywide average unemployment rate. As seen in Table 7-6, the average unemployment rate dropped in all counties from 1985 to 1996 (except for Adams County which remains at the same level). Sixteen counties experienced a decline of more than 5.0 percentage points in their

average unemployment rate, and fourteen of these are counties which have traditionally been distressed. Of course, many of these have relatively small workforces; for them a smaller change in jobs is necessary to affect the unemployment rate than for the large, urbanized counties.

Relative to the statewide average, nine of the 22 traditionally distressed counties improved their unemployment rates. These counties were Benton, Chelan, Clallam, Cowlitz, Lewis, Okanogan, Skamania, Stevens and Wahkiakum. However, in the other 13 distressed counties average unemployment rates in relation to the state average became worse.

In terms of economic diversification, it is apparent that the tax incentive programs have encouraged a slightly broader distribution of manufacturing jobs throughout the state. Perhaps more significantly, within traditionally distressed counties it appears that there is now a wider range of types of manufacturing activities. The list on page 7-10 shows new manufacturing firms which were not previously located in selected distressed counties. Although the traditional timber counties continue to rely largely upon manufacturing of lumber and wood products, job losses in these counties have been partially offset by new activities. Further, as noted above, there has been a small improvement in the distribution of unemployment; now the 22 distressed counties comprise only 17.3 percent of total statewide unemployment, an improvement of one and one-half percentage points.

Role of Tax Incentive Programs in Economic Development

In general, there appears to be little correlation between the amount of tax benefit received by participants in the tax incentive programs and the growth in employment which resulted. Therefore, these tax incentives may not be a major factor in influencing the location process for businesses. Distressed area participants, however, tended to be more closely related to national industry growth patterns than the experience for similar industries in Washington state. Thus, it may be that national markets are a more significant factor in determining the location of firms. However, some element of location choice may remain important for such firms which can be influenced by the existence of tax incentive programs.

New manufacturer deferral participants appear to have located in Washington to take advantage of greater growth prospects, since on average employment growth rates in their typical industries appeared to be greater in Washington than for the nation. The jobs credit program by itself does not appear to have a lasting benefit on employment. However, when combined with a plant expansion and participation in the distressed area deferral, a slight increased in employment growth seemed to occur for such firms.

Clearly, an investment of up to $3.2 billion is not insignificant for the state economy. Without the incentives the growth in manufacturing activity in Washington could have been much less.

Nonetheless, this analysis has not been able to determine how much of this investment actually took place or whether it would have otherwise occurred in the absence of the incentive programs. In any case, tax incentive programs are popular with economic development officials for they provide evidence of the state's commitment toward improving the business climate. Further, they allow Washington to be competitive with other states, since many of them offer similar tax incentives to prospective new firms.

Programs such as these may not be as significant as the overall quality of life in the state, the existence of a well trained workforce, infrastructure elements such as transportation networks, or economic factors such as proximity to raw materials and markets. But judging from the participation in these three programs, it is reasonable to conclude that at least some of the investment and increased employment can be attributed to the tax incentives.

APPENDICES

1. AUTHORIZING STATUTE FOR THE REPORT

2. SURVEY OF PARTICIPANTS

3. COPIES OF ADMINISTRATIVE DOCUMENTS

4. COPY OF INFORMATIONAL BROCHURE

AUTHORIZING STATUTE FOR THE REPORT

RCW 82.63.080 Report to governor and legislature. (Effective January 1, 1995.) The department shall perform an assessment of the results of the tax credit and tax deferral programs authorized under chapter 82.60, 82.61, and 82.62 RCW and deliver a report on the assessment to the governor and the legislature by September 1, 1996. The assessments shall measure the effect of the programs on job creation, the number of jobs created for Washington residents, company growth, the introduction of new products, the diversification of the state's economy, growth in research and development investment, the movement of firms or the consolidation of firms' operations into the state, and such other factors as the department selects. (1994 1st special session, chapter 5, sec. 10.)

SURVEY OF PARTICIPANTS IN DEFERRAL AND EXEMPTION PROGRAMS

The legislation authorizing the establishment of certain tax credit and deferral programs requires the Department of Revenue to monitor the results of the programs. Please respond to the following questions as they relate to your company's participation in the Distressed area Sales/Use Tax Deferral/Exemption Program, the Distressed area B&O Jobs Credit Program, or the New Manufacturers Tax Exemption Program.

1. Estimate the number of additional jobs your company has created and maintained as a direct result of your company's participation in the program.

2. Did your participation in the program allow your company to diversify your product line or introduce any new products?

3. Estimate your company's increases in spending on research and development resulting from your participation in the program.

4. Did the program affect your company's decision to relocate of consolidate operations into the state?

5. Did the Distressed Area Program encourage your company to invest in a distressed area versus a non-distressed area?

6. Did changes in program features affect your company's decision to participate in the program? For example, Capital/Labor requirement relationship, Leased facility allowance, , Exemption versus Deferral, etc.

7. Explain any problems you may have experienced as a result of locating in a distressed area, for example, finding a qualified workforce.

8. How would you rank the importance of this program in the business decision making process? For example, what is its relative importance compared to other factors such as being located close to markets, having a qualified workforce, being near suppliers, etc.?

1	2	3	4	5	6	7	8	9	10
Low									High

9. Please share any comments or suggestions you have regarding your experiences with the program. (Attach an additional sheet if necessary.)

COPIES OF ADMINISTRATIVE DOCUMENTS

APPLICATIONS FOR INCENTIVE PROGRAMS:

Distressed Area Sales/Use Tax Deferral & Exemption

New Manufacturing Sales/Use Tax Deferral

Distressed Area B&O Tax Credit on New Employees

CERTIFICATES ISSUED TO PARTICIPANTS:

Sales & Use Tax Deferral Certificate, 82.60 RCW

Sales & Use Tax Deferral Certificate, 82.61 RCW

Business and Occupation Tax Employee Credit Schedule

State of Washington
Department of Revenue
Miscellaneous Tax Section
PO Box 448
REVENUE Olympia, WA 98507-9860

FOR DEPARTMENT OF REVENUE USE ONLY
Date Received _____
Date Approved _____
TDC Number _____
Other _____
_____

DISTRESSED AREA
APPLICATION FOR SALES AND USE TAX DEFFERRAL & EXEMPTION
82.60 RCW

(Please submit original application **and** one copy **before** construction starts and/or **before** possession of machinery and equipment is taken within Washington State)

NOTICE: Applications and other information received by the Department under this chapter are not confidential and are subject to disclosure. Only non-proprietary information is required on this appplication.

1. Name of business as registered _____
2. Mailing address _____
3. Name of contact person _____ Phone number (_____) _____
4. Department of Revenue Registration Number _____
5. Deferral project address _____
   Street City County
6. Will this project create a new Washington business operation? ☐ Yes ☐ No
7. Will the facility housing the operation be leased by applicant? ☐ Yes ☐ No
8. Will the new structure(s) be built by a lessor who will pass on this tax exemption benefit to lessee? ☐ Yes ☐ No

(Please attach a completed Lessor's Application and a copy of the lease agreement reflecting the reduction in rents, that passes on the benefit)

Facility Construction

9. Date construction/expansion is to start _____
10. Anticipated Construction costs (excluding cost of land):
    (a) Construction of new structure(s) $_____
    (b) Remodel of structure $_____
    (c) Construction of cogeneration facility $_____
    Total building cost $_____

Machinery & Equipment

Include cost of all machinery and equipment to be installed

11. Date equipment is to be installed _____
    (a) Purchase price $_____
    (b) Lease contract price $_____
    (c) Fair market value of previously owned machinery and equipment that is new to the State of Washington $_____
    (d) Cogeneration equipment $_____
    Total machinery and equipment costs $_____
    Total project costs $_____
12. Anticipated project completion date _____

When answering the following questions, please be precise. Feel free to attach extra pages if needed.

13. Nature of manufacturing activity _____

14. Nature of research and development activity _____

15. Nature of computer service activity _____

16. Total existing statewide full-time positions for this business _____

17. Total full-time positons prior to project at this site _____

18. New full-time positions to be created as a result of this project _____

19. Is the project located in a Distressed County? ☐ Yes ☐ No

20. Is the project located in a county adjacent to a Distressed County? ☐ Yes ☐ No

    (a) If yes, number of qualified full-time positions that will be filled by residents of a Distressed County _____

    (b) Name of Distressed County _____

21. Is the project located in a Community Empowerment Zone? ☐ Yes ☐ No

22. Is the project located in a county that contains a Community Empowerment Zone? ☐ Yes ☐ No

    (a) If yes, number of qualified full-time positions that will be filled by residents of a community Empowerment Zone _____

    (b) Name of Community Empowerment Zone _____

23. Is the project located in a Timber Impact Community? ☐ Yes ☐ No

    If yes, name of city _____ county _____

    Other _____

27. Percentage of facility devoted to:

    (a) Manufacturing _____

    (b) Research & development _____

    (c) Computer-related service _____

    (d) Other _____

28. Percentage of cogeneration energy produced devoted to internal use:

    (a) Manufacturing _____

    (b) Research & development _____

    (c) Other _____

The processing of this application may require the submission of additional data, statements, and other information to the Department of Revenue in order to comply with the administrative and statutory requirements of the law.

To inquire about the availablity of this form in an alternate format for the visually impaired or a language other than English, call (360) 753-3217.

Keep a copy of this completed form for your records

State of Washington
Department of Revenue
Special Programs Division
PO Box 448
Olympia, WA 98507-0448

FOR DEPARTMENT OF REVENUE USE ONLY
Date Received _____
Date Approved _____
TDC # _____
Other _____
_____

NEW MANUFACTURING
APPLICATION FOR SALES AND USE TAX DEFERRAL
82.61 RCW

(Please submit original application **and** one copy)

SECTION 1. GENERAL INFORMATION

1. Name of applicant _____
2. Mailing address _____
3. Phone number _____
4. Department of Revenue Registration Number _____
5. A. Location of records for audit purposes _____

   B. Person to contact for audit purposes _____
   (Name) (Area Code) (Telephone)
6. Location of investment project _____
   (Address)

   _____ _____
   (City or Town) (Zip Code) (County)
7. Anticipated date for initiating construction of project _____
8. Anticipated date for completion of project _____
   (Attach estimated time schedules for completion and operation)
9. Estimated cost of new building(s) $ _____

   Estimated cost of equipment and machinery $ _____

   TOTAL $ _____
10. Is this business located in a Community Empowerment Zone? ☐ Yes ☐ No
11. Briefly describe the total project (Attach additional sheet if necessary) _____
12. Principal product(s) to be manufactured or research and development activity to be rendered: _____

13. Estimated or actual permanent jobs resulting from project _____

_____

_____

_____

14. Is the applicant the **owner** or lessee of the building and equipment/machinery for which the tax deferral is being made?

Building _____ Owner _____ Lessee

Equipment/Machinery _____ Owner _____ Lessee

SECTION II. BASIS FOR QUALIFICATION

15. Will this project create a new manufacturing or research and development operation? ☐ Yes ☐ No

Please specify: _____

16. Was the applicant engaged in manufacturing or research and development activities within the State of Washington on June 14, 1985? ☐ Yes ☐ No

17. Was the applicant succeeded by merger, consolidation, incorporation, or any other form or change of identity to the business of a person engaged in manufacturing or research and development activities in the State of Washington on June 14, 1985? ☐ Yes ☐ No

18. Was the applicant a subsidiary of a person engaged in manufacturing or research and development activities in the State of Washington on June 14, 1985? ☐ Yes ☐ No

SECTION III. DECLARATION STATEMENT

(To be completed by all applicants)

19. I hereby certify that all of the information entered above and in the exhibits attached hereto is true and correct to the best of my knowledge and belief and is submitted for the purpose of obtaining a Tax Deferral Certificate under the provisions of Chapter 82.61 RCW for the project described above. It is understood that the processing of this application may require the submission of additional data, statements, and other information to the Department of Revenue in order to comply with the administrative and statutory requirements of the law.

Signature _____

Title _____

Address _____

_____

Date submitted _____

20. Person, phone number, and mailing address to whom all correspondence should be directed:

Name _____

Phone _____

Address _____

21. Name and subject of attachments/exhibits:

_____

_____

_____

Please return original application and one copy to:

State of Washington
Department of Revenue
Miscellaneous Tax Section
PO Box 448
Olympia, WA 98507-0448

(Please retain a copy for your records)

State of Washington
Department of Revenue
Special Programs Division
PO Box 448
REVENUE Olympia, WA 98507-0448

FOR DEPARTMENT OF REVENUE USE ONLY
Date Received _____
Date Approved _____
TDC # _____
Other _____
_____

DISTRESSED AREA
APPLICATION FOR B & O TAX CREDIT ON NEW EMPLOYEES
82.62 RCW

(Please submit original application **and** one copy **before** hiring starts)

SECTION I. GENERAL INFORMATION

1. Name of applicant _____
2. Business address _____
3. Phone number (_____) _____
4. A. Department of Revenue Registration UBI Number ☐☐☐ - ☐☐☐ - ☐☐☐

   B. Is the business new ☐ or is the business expanding ☐?
5. A. Location (address) of records for audit purposes _____

   B. Person to contact for audit purposes _____
   (Name) (Area Code) (Phone Number)
6. Washington State Employment Security Department Identification Number _____

   Please list any other Employment Security Branch Identification Numbers if different from above.

   _____
7. Has applicant previously applied for tax credit under this program? ☐ Yes ☐ No

SECTION II. BASIS FOR QUALIFICATION

8. Location of business facility for which credit is being sought _____
   (County)

   _____
   (Address)

   _____
   (City or Town)
9. Has applicant received a tax deferral under Chapter 82.61 RCW? ☐ Yes ☐ No
10. Is this business located in a Community Empowerment Zone? ☐ Yes ☐ No
11. Is applicant engaged in the light and power business? ☐ Yes ☐ No
12. Type of business activity to be conducted at this business facility _____

    _____

    _____

13. Estimated average full-time employment (FTE) at business facility for all of previous calendar year _____ (1820 annualized hours worked = 1 FTE)

14. A. Estimated number of new full-time positions, for which tax credit is sought, that will be filled by permanent full-time employees in a manufacturing, research and development, or computer related service business._____

B. Will any of these new positions be created by displacing existing positions elsewhere in Washington?

☐ Yes ☐ No

15. Please indicate applicant's time schedule for hiring new employees at this business facility _____

_____

_____

SECTION III. OTHER INFORMATION

16. A. Please indicate the job categories of the new positions for which tax credit is being sought _____

_____

_____

B. Estimated wages per job category _____

_____

_____

17. Will the new positions be listed with the Washington State Employment Security Department? ☐ Yes ☐ No

18. If this is to be a new facility, what is the estimated cost of the project? _____

SECTION IV. DECLARATION STATEMENT

(To be completed by all applicants)

19. I hereby certify that all information entered above and contained in the attached exhibits, if any, is true and correct to the best of my knowledge. This application is submitted for the purpose of obtaining a tax credit under the provisions of Chapter 82.62 RCW for the creation of employment positions described above. It is understood that participation in this program will require the submission of additional data, statements, and other information to the Department of Revenue in order to comply with the administrative and statutory requirements of the law.

Name (Please print) _____

Signature/Title _____

Address _____

_____

Date of Application _____

20. Name, address, and phone number of person to whom all correspondence should be directed:

Name _____

Address _____

_____ Phone _____

Please return original application **and** one copy to:
State of Washington
Department of Revenue,
Miscellaneous Tax Section
PO Box 448
Olympia, WA 98507-0448
(Please retain a copy for your records)

STATE OF WASHINGTON

DEPARTMENT OF REVENUE

Special Programs Division • Miscellaneous Tax Section

P.O. Box 47477 • Olympia, Washington 98504-7477 • (360) 753-5545 • FAX (360) 586-2163

TDD (360) 664-9144 • TDD 1-800-451-7985 • Internet Address: http://www.wa.gov/dor/wador.htm

SALES AND USE TAX DEFERRAL CERTIFICATE
Chapter 82.60 RCW (SESSB 5201)

Certificate Holder:

Certificate Number: 5201-96-___

Registration Number:

Effective Date:

The Department of Revenue hereby grants sales and use tax deferral for the investment project located in _____, Washington, and described in the application dated _____.

This authorization extends only to state and local retail sales tax and use tax due on material, labor, and services utilized in the course of construction on the above-described project, as well as machinery and equipment to be used therein as an integral and necessary part of the manufacturing, research and development operations, or computer operations.

This certificate is valid only for qualifying acquisitions made from _____ through _____, and is limited to a maximum amount of $_____ in total deferred tax. These limits are based upon information supplied in the original application. The certificate holder may request a change to these limits by writing to Miscellaneous Tax Specialist, Department of Revenue, PO Box 47477, Olympia, WA 98504-7477.

Authorizing Signature

Moonyene Thompson
Miscellaneous Tax Specialist

NOTICE TO VENDORS: Sales made under this certificate should be reported under the Retailing and Retail Sales Tax classification on the Combined Excise Tax Return. Identify the retail sales tax deduction on the deduction detail page of the tax return as "Tax Deferred Sale Made Under Tax Deferral Certificate No. 5201-96_____."

This certificate is only valid until _____, unless it is accompanied by a letter extending the completion date.

STATE OF WASHINGTON

DEPARTMENT OF REVENUE

Special Programs Division • Miscellaneous Tax Section

P.O. Box 47477 • Olympia, Washington 98504-7477 • (360) 753-5545 • FAX (360) 586-2163

TDD (360) 664-9144 • TDD 1-800-451-7985 • Internet Address: http://www.wa.gov/dor/wador.htm

SALES AND USE TAX DEFERRAL CERTIFICATE
Chapter 82.61 RCW (HB 1326)

Certificate Holder:

Registration Number:

The Department of Revenue under the authority of Chapter 82.61 RCW hereby grants sales and use tax deferral for the eligible investment project which is located at _____, Washington, and which is more particularly described in the application dated _____.

This deferral extends only to state and local retail sales tax and use tax due on the construction of buildings as well as the acquisition of qualified machinery and equipment to be used therein as an integral and necessary part of the manufacturing or research and development operation, as defined in the law.

The tax so deferred shall be payable as follows:

> The first payment, 10 percent of the total tax deferred, will be due December 31st, three years after the facility is operationally complete, with subsequent annual payments due on December 31st of the following four years of 15 percent, 20 percent, 25 percent, and 30 percent, respectively.

This certificate shall become invalid if construction of the above-described investment project has not commenced prior to _____.

Certificate Number: 1326-96-

Effective Date:

Signature

Miscellaneous Tax Specialist

NOTICE TO VENDORS: Sales made under this certificate should be reported under the Retailing and Retail Sales Tax classifications. Identify the retail sales tax deduction on the reverse side of your tax return as "Tax Deferred Sale Made Under Tax Deferral Certificate Number 1326-96-___".

This certificate is only valid until _____, unless it is accompanied by a letter extending the completion date.

STATE OF WASHINGTON

DEPARTMENT OF REVENUE

Special Programs Division • Miscellaneous Tax Section

P.O. Box 47477 • Olympia, Washington 98504-7477 • (360) 753-5545 • FAX (360) 586-2163

TDD (360) 664-9144 • TDD 1-800-451-7985 • Internet Address: http://www.wa.gov/dor/wador.htm

BUSINESS AND OCCUPATION TAX
EMPLOYEE CREDIT SCHEDULE

Taxpayer:

Registration Number:

Tax Credit Approval Number: 1754-96-___

INSTRUCTIONS: Credit will be available in $2,000 increments as each new employee is hired. Please make additional copies of this form to use on future tax returns if there is a remaining credit shown on Line 6.

Line 1 - Enter the excise tax return reporting period for which the credit is being claimed (for example, 2-96, Q2-96).

Line 2 - Amount of approved credit.

Line 3 - Enter the total B&O tax credit taken on earlier tax returns.

Line 4 - Enter the previous credit balance.

Line 5 - Enter the tax credit being applied against the current tax return. Enter this figure on line 77 of the Combined Excise Tax Return.

Line 6 - Credit balance which remains to be taken on future tax returns as new employees are hired.

ATTACH A COPY OF THIS FORM TO EACH TAX RETURN ON WHICH CREDIT IS CLAIMED.

Line 1:	Enter Tax Reporting Period		_____
Line 2:	Total Approved Tax Credit		$_____
Line 3:	Less Credit Previously Taken		_____
Line 4:	Remaining Credit (Line 2 minus Line 3)		_____
Line 5:	Credit Taken on This Tax Return	840	_____
Line 6:	Credit to be Carried Forward		_____
Line 7:	Number of New Employees Hired to Date		_____

COPY OF INFORMATIONAL BROCHURE

EXPLAINING TAX INCENTIVE PROGRAMS

FOR MANUFACTURERS AND SELECTED OTHER BUSINESSES

(See pages 3 - 7)

Information on Washington's Tax Structure

REVENUE

Deferrals, Exemptions and Credits

SALES AND USE TAX DEFERRALS/ EXEMPTIONS, AND BUSINESS AND OCCUPATION TAX CREDITS

New and existing manufacturers, research and development firms, and certain high technology companies in Washington can benefit from several targeted tax incentives. These incentives are intended to encourage the preservation and creation of family-wage jobs in the manufacturing and high technology sectors, particularly in areas where high unemployment exists.

The incentives are:

- Sales/Use Tax Exemption for Machinery and Equipment
- Distressed Area Sales/Use Tax Deferrals/ Exemptions
- Distressed Area Business and Occupation Tax Credits
- High Technology Sales/Use Tax Deferrals/ Exemptions
- High Technology Business and Occupation Tax Credits

The information contained in this fact sheet is current as of the date of this publication and is intended only as general information. It does not cover every aspect of these incentives. Not all possible applications of the programs are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.

SALES/USE TAX EXEMPTION ON MACHINERY AND EQUIPMENT - CHAPTER 82.08 / 82.12 RCW

Manufacturers, processors for hire, and, effective June 6, 1996, manufacturers who perform research and development are not required to pay the sales or use tax on machinery and equipment used directly in the manufacturing or research operations. Charges for labor and services for installing the machinery and equipment are also not subject to the sales or use tax. As of June 6, 1996, charges for repair labor and parts (if the parts have a useful life of at least one year), cleaning, altering, or improving the qualified machinery and equipment are exempt from the sales and use taxes.

A "manufacturing operation" means the manufacturing of articles, substances, or commodities for sale as tangible personal property. The manufacturing operation begins at the point where the raw materials enter the manufacturing site and ends at the point where the finished product leaves the manufacturing site. Included is the portion of a cogeneration project used to generate power and steam for consumption within the manufacturing site when the cogeneration project is an integral part of the manufacturing operation.

The research and development must be performed by a manufacturer or processor for hire. Research and development generally includes activities performed to discover technological information, and technical and nonroutine activities concerned with translating technological information into new or improved products, techniques, formulas, inventions or software. The term includes exploration of a new use for an existing drug, device or biological product, if the new use requires separate licensing by the Federal Food and Drug Administration under

Chapter 21 CFR, as amended. (See RCW 82.63.010 for a full definition.)

Machinery and equipment means industrial fixtures, devices and support facilities, including pollution control equipment installed and used in a manufacturing operation to prevent air or water pollution, or contamination that might otherwise result from the manufacturing operation. The term does not include hand tools, items with a useful life of less than one year, buildings, and building fixtures that are not an integral part of the manufacturing operation.

No prior application to the Department of Revenue is required.

The purchaser must, however, provide the seller with an exemption certificate at the time of purchase. A copy of the certificate is shown below. Both the seller and the purchaser must keep copies of the exemption certificates for five years.

Purchasers must also provide the Department of Revenue with a copy of the certificate or an annual summary of the exempt purchases. You may reproduce or enlarge the samples shown on this page for your own use. The summary is due

Washington State Department of Revenue

MANUFACTURER'S SALES AND USE TAX EXEMPTION CERTIFICATE

1. Buyer/User UBI/Revenue Registration No. _____
2. Name of Buyer/User _____
3. Address of Buyer/User _____
   Street City, State Zip
   Usage Area Location Code (see table on back) _____
4. Seller UBI/Revenue Registration No. _____ Name of Seller _____

The buyer/user certifies that the items purchased/used are:

	Cost	
5.	_____	Specialized industry machinery
6.	_____	Metalworking machinery
7.	_____	Materials handling equipment/storage
8	_____	Instruments - Test equipment
9.	_____	Computers - Peripherals (Manufacturing use only)
10.	_____	Pollution control equipment
11	_____	Cogeneration equipment
12	_____	Materials used to fabricate machinery and equipment
13	_____	Installation labor for machinery and equipment
14	_____	Other (Explain) _____
15.	_____	Research & development equipment
16	_____	Repair & replacement parts
17.	_____	Repair, cleaning labor

The buyer/user certifies that it is engaged in manufacturing activities and that the items listed above will be directly used in a manufacturing operation. This certificate must be used each time an exempt item is purchased. Both the buyer/user and seller must keep a copy of the certificate for their records.

If you do not file an annual summary listing all qualifying purchases, you must send a copy of this certificate to the Department of Revenue at the following address:

State of Washington
Department of Revenue
Research Division
PO Box 47459
Olympia, WA 98504-7459

Do not attach to the Combined Excise Tax Return.

Authorized Agent of Buyer/User (please print) _____

Authorized Signature _____ Title _____

Date _____

MANUFACTURER'S SALES TAX EXEMPTION SUMMARY

ANNUAL SUMMARY
MANUFACTURER'S MACHINERY & EQUIPMENT
PURCHASES ELIGIBLE FOR SALES TAX EXEMPTION

Buyer/User Name: _____ UBI/Revenue Registration No.: _____

Purchase Date	Usage Area Location Code	Seller UBI/Revenue Registration No.	Name of Seller	Descrip. Code	Amount

MANUFACTURER'S USE TAX EXEMPTION SUMMARY

ANNUAL SUMMARY
MANUFACTURER'S MACHINERY & EQUIPMENT
PURCHASES ELIGIBLE FOR USE TAX EXEMPTION

Buyer/User Name: _____ UBI/Revenue Registration No.: _____

Purchase Date	Usage Area Location Code	Seller and State	Check if Self-Constructed	Descrip. Code	Amount

DESCRIPTION CODES

5	Specialized industry machinery
6	Metalworking machinery
7	Materials handling equipment/storage
8	Instruments - Test equipment
9	Computers - Peripherals
10	Pollution control equipment
11	Cogeneration equipment
12	Materials used to fabricate machinery & equipment
13	Installation labor for machinery & equipment
14	Other
15	Research & development machinery & equipment
16	Repair & replacement parts
17	Repair, cleaning labor

EQUIPMENT USE LOCATIONS

Counties and Areas	Location Code	Areas Included
Adams	010	
Asotin	020	
Benton	030	
Chelan	040	
Clallam	050	
Clark	060	
Columbia	070	
Cowlitz	080	
Douglas	090	
Ferry	100	
Franklin	110	
Garfield	120	
Grant	130	
Grays Harbor	140	
Island	150	
Jefferson	160	
Timber Impact Areas-2	163	Queets, Quillayute, Clearwater
King	170	
Community Empowerment Zones	171	South Seattle, White Center
Kitsap	180	
Community Empowerment Zones	181	Downtown Bremerton
Kittitas	190	
Klickitat	200	
Lewis	210	
Lincoln	220	
Mason	230	
Okanogan	240	
Pacific	250	
Pend Oreille	260	
Pierce	270	
Community Empowerment Zones	271	Tacoma
San Juan	280	
Skagit	290	
Skamania	300	
Snohomish	310	
Timber Impact Areas-1	312	Darrington, Goldbar, Woodway
Timber Impact Areas-2	313	Arlington, Everett, Granite Falls, Marysville, Snohomish
Spokane	320	
Stevens	330	
Thurston	340	
Wahkiakum	350	
Walla Walla	360	
Whatcom	370	
Timber Impact Areas-1	372	Nooksack, Sumas
Timber Impact Areas-2	373	Acme, Bellingham, Deming, Everson, Maple Falls
Whitman	380	
Yakima	390	
Community Empowerment Zones	391	Yakima City

REV 90 0018.2 (5-8-96)

on January 31st of the calendar year following the purchases. Buyers who make infrequent purchases of exempt items may, at their option, file a duplicate of the exemption certificate with the Department of Revenue within sixty days of the first use of the machinery and/or equipment in Washington, instead of filing an annual summary. This information will be used to assess the financial impact and effectiveness of the tax exemption.

NOTE: You may lose your exemption if you do not file the annual summary or copies of the exemption certificates with the Department of Revenue.

DISTRESSED AREA SALES / USE TAX DEFERRAL/EXEMPTIONS - CHAPTER 82.60 RCW

The Distressed Area Sales/ Use Tax Deferral/Exemption Program grants a waiver of sales/use tax for manufacturing, research and development, or computer related businesses (excluding light and power businesses) locating in specific geographical areas. In certain other locations, the sales/use taxes on qualified construction and equipment costs are waived when all qualifications are met for a specified period of time. These locations are listed later in this fact sheet.

NOTE: If you applied for and were accepted to the Distressed Area Sales/Use Tax Deferral/Waiver Program prior to July 1, 1995 your qualifications and conditions for exemption/ waiver are different.

SALES/USE TAX WAIVER

The sales and/or use taxes for businesses located in distressed areas are waived when the project is certified as operationally complete and all purchases are verified as eligible by the Department of Revenue. **No repayment is required.**

Eligible areas are:

- Counties with unemployment rates 20 percent higher than the statewide average for the prior three years or counties in which the average household income for the prior three years is less than 75 percent of the state average household income for the preceeding three years. The following counties are designated as distressed areas effective May 1, 1996 through April 30, 1997:

Adams	Franklin	Okanogan
*Asotin	Grant	Pacific
Chelan	Grays Harbor	Pend Oreille
Clallam	Kittitas	Skagit
Columbia	Klickitat	Skamania
Cowlitz	Lewis	Stevens
Ferry	Mason	*Whitman
		Yakima

* Effective June 6, 1996
(Please see map on page 4.)

- Metropolitan Statistical Areas in which the unemployment rate exceeds the state rate by 20 percent for the preceding year. Qualifying counties are:

Benton	Franklin	Yakima

- Towns with a population less than 1,200 in a county designated as a timber impact area that is not a designated distressed area. They are:

<u>Snohomish County:</u>

Darrington*	Index	Woodway
Gold Bar*		

<u>Whatcom County:</u>

Nooksak	Sumas*

* Also qualify for the Distressed Area Business and Occupation Tax Credit Program.

- Counties designated by the Governor which have experienced a natural disaster, military base closure or mass layoff by a business (the unemployment rate projected for the area must exceed the statewide average by at least 40 percent). Currently only the following county qualifies:

Wahkiakum (expires August 17, 1996)

This program expires July 1, 2004.

REQUIREMENTS

The business must be located in one of the eligible counties or areas.

The business must invest in facility construction, expansion, or machinery and equipment. The machinery and equipment must be new to the business or the state and must be necessary for the operation of the eligible business activity.

Used machinery qualifies. A new building is not required.

The cost of the expansion or modernization of an existing facility qualifies if floor space or production capability is increased.

Construction costs for a qualified leased building are eligible for the program, provided the benefit of the exemption is passed onto the qualified business through reduced rent OR the underlying ownership of the building, machinery and equipment vests with the same person(s).

Cogeneration facilities that are part of a manufacturing facility qualify on the portion that is used to generate power for on-site consumption.

AREAS WITH EMPLOYMENT REQUIREMENTS

Deferrals are also available for certain businesses who locate in specific distressed areas and meet the employment requirements.
<u>NO REPAYMENT IS REQUIRED</u> on the deferred sales/use tax for these businesses after the project is operationally complete, <u>IF</u> all program requirements are met.

The specific distressed areas with the additional employment requirements are:

- Community Empowerment Zones:

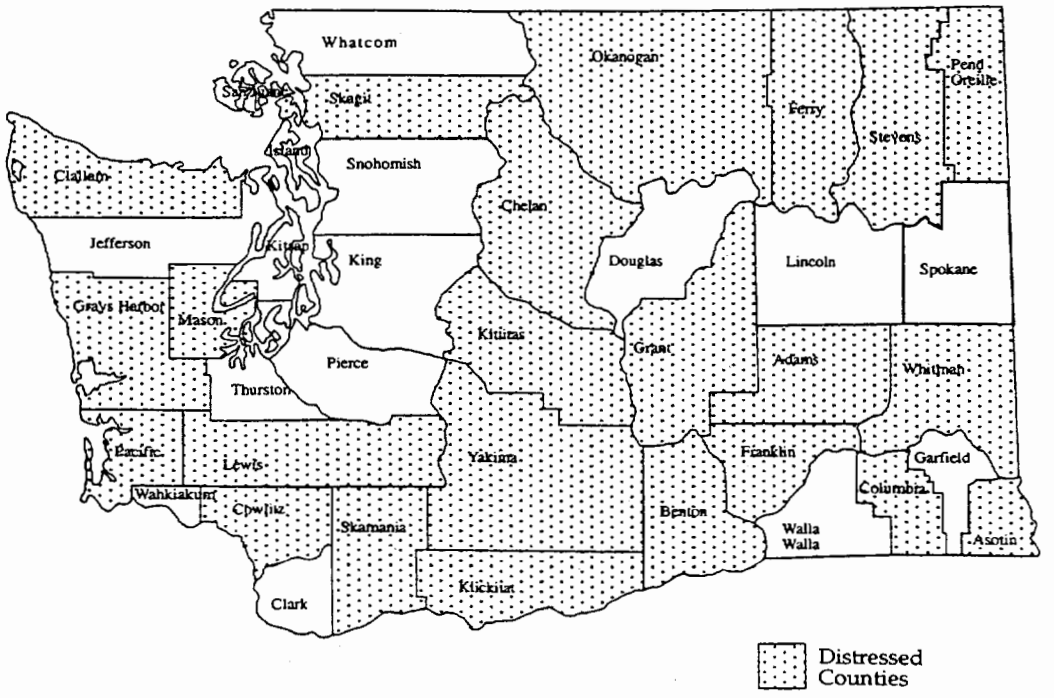
  Bremerton Tacoma Yakima
  Seattle White Center (King County)

- Counties containing a Community Empowerment Zone:

  King Pierce Yakima
  Kitsap

- Counties adjacent to distressed counties:

  (Please see map below.)



EMPLOYMENT REQUIREMENTS

- One full-time employment position must be created for every $750,000 of investment. The cost of the entire investment project, including machinery and equipment on which the retail sales/use tax is exempted, is used to determine how many positions are needed. If the required number of positions are not created, the deferral/ exemption is prorated.

- For each calendar year the required number of full-time employment positions for every $750,000 of investment is not created, 12.5 percent of the deferred taxes must be paid, plus interest.

- The position(s) must be NEW. Employees may be transferred from other locations to fill the new position(s), as long as the vacated position(s) at the other location is filled.

- *In Community Empowerment Zones or counties which contain a Community Empowerment Zone*, 75 percent or more of new qualified employment positions created must be filled by residents of the zone. This level of employment must be maintained during the start-up year, plus seven additional years.

- *In counties adjacent to distressed counties*, at least 75 percent of the new qualified employment positions must be filled by residents from the distressed county. This level of employment must be maintained during the start-up year, plus seven additional years.

All costs of the investment, including machinery and equipment on which the sales/use tax has been exempted and labor and services performed in the planning, installation and construction of the project are used to determine the eligible portion for deferral/exemption.

APPLICATION

An application must be filed with the Department of Revenue BEFORE construction begins or machinery or equipment is acquired.

Applications for the Distressed Area Sales/Use Tax Deferral/Exemption may be requested by calling the Department of Revenue's Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985).

The Department of Revenue must approve or deny applications within 60 days. If approved, a Tax Deferral Certificate is issued to the business to provide to sellers at the time of purchase. If denied, the business may appeal the decision to the Department's Interpretation and Appeals Division.

EMPLOYEE TRAINING B&O TAX CREDITS

A new B&O tax credit is available to businesses which have received approval for the Distressed Area Sales/Use Tax Deferral/ Exemption Program after January 1, 1996 and provide employee job training to their employees at no cost to the employee.

The maximum annual credit a business may use is $5,000. The credit is computed by multiplying the approved training cost by 20 percent.

Applications will be received from the Department of Revenue, but must be returned to and approved by the Employment Security Department. If approved, the Employment Security Department will send written confirmation and the Department of Revenue will send an affidavit to use to claim the tax credit on the Combined Excise Tax Returns.

Questions about the application should be referred to Brian O'Neall at the Employment and Training Division of the Employment Security Department, (360) 438-4616.

Questions about issues related to the use of the tax credit should be referred to John Ryser at the Department of Revenue, (360) 902-7000.

DISTRESSED AREA BUSINESS AND OCCUPATION TAX CREDIT - CHAPTER 82.62 RCW

The Distressed Area Business and Occupation (B&O) Tax Credit Program for increasing employment provides a $2,000 (effective January 1, 1996) credit against the B&O tax for each new employment position created and filled by certain businesses located in eligible areas.

Eligible areas are counties with unemployment rates 20 percent higher than the statewide average for the prior three years or counties in which the average household income for the prior three years is less than 75 percent of the state average household income for the preceeding three years. The following counties are designated as distressed areas effective May 1, 1996 through April 30, 1997:

Adams	Franklin	Okanogan
*Asotin	Grant	Pacific
Chelan	Grays Harbor	Pend Oreille
Clallam	Kittitas	Skagit
Columbia	Klickitat	Skamania
Cowlitz	Lewis	Stevens
Ferry	Mason	*Whitman
		Yakima

*Effective June 6, 1996
(Please see map on page 4.)

- Community Empowerment Zones:

Bremerton	Tacoma	Yakima
Seattle	White Center (King County)	

- Metropolitan Statistical Areas where the unemployment rate exceeds the state rate by 20 percent for the preceding year. Qualifying are:

Benton	Franklin	Yakima

- Timber impact areas in non-distressed counties:

Snohomish County:

Arlington	Gold Bar*	Snohomish
Darrington*	Granite Falls	Sultan
Everett	Marysville	

Whatcom County:

Acme	Deming	Maple Falls
Bellingham	Everson	Sumas*

Jefferson County:

Clearwater	Queets	Quilcene

* Also qualify for Distressed Area Sales and Use Tax Deferral/Exemption program (less than 1,200 residents).

This program expires July 1, 1998.

REQUIREMENTS

- **An application must be filed with the Department of Revenue BEFORE filling the new positions.** Positions may be filled after the application is submitted to the Department of Revenue. However, credit cannot be taken until the application is approved.

- The business must be a manufacturing, research and development, or computer-related service business (excluding light and power business) that locates or expands in a designated distressed county or other eligible area.

- Businesses must create a new work force, or expand the existing work force by 15 percent (full-time employment positions) over the preceding year, by December 31 of the year credits are applied for (all positions created by a new business will qualify for the first year).

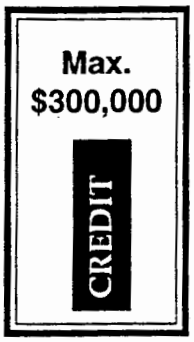
- New full-time employment positions must be maintained for 12 consecutive months by either a new or expanding business.

- To qualify, a new application must be submitted to the Department of Revenue EACH year that a 15 percent increase in the number of positions over the previous year is anticipated.

- When a person filling a position quits or is fired, approved credit for that position will not be canceled as long as that vacant position is filled within 30 days. An employee "in training" qualifies as filling a position.

LIMITATIONS

- Businesses already deferring sales or use tax under the New Business Sales/ Use Tax Deferral Program under the provisions of 82.61 RCW that expired July 1, 1995, are not eligible for the Business and Occupation Tax Credit Program.



- Individual businesses are limited to a maximum credit of $300,000 over the life of the program.

- Only the number of full-time employment positions, applied for and approved by the Department of Revenue, are eligible for credit. If more positions are created after the application is approved, they are not eligible for the credit.

- The position(s) must be NEW. Positions may not be transferred from an established site in Washington to a new site or other qualified location unless the vacated positions are filled.

HOW TO DETERMINE A FULL-TIME EMPLOYMENT POSITION

A full-time employment position is one that is filled by one or more employees who:

- Work 35 hours per week for 52 weeks, or

- Work 455 hours each quarter (excluding overtime) of the year, or

- Work 1,820 hours annually (excluding overtime) over a period of 12 consecutive months.

NOTE: Tax credits for qualified businesses who hire seasonal employees may be approved if certain requirements are met. See Excise Tax Bulletin No. 535.04.240 for more information.

HOW TO DETERMINE A 15 PERCENT INCREASE

To determine if the number of new positions anticipated is an increase of 15 percent:

1. Add up the number of all full-time employees on the payroll for each month of the preceding year.

2. Divide this number by 12.

The answer represents the average number of full-time employment positions.

FOR EXAMPLE: A business applies for credit in July 1995, its preceding year is 1994. The number of monthly full-time employment positions in 1994 were:

Jan. - 10	May - 15	Sept. - 15
Feb. - 10	June - 16	Oct. - 14
March - 12	July - 17	Nov. - 12
April - 15	Aug. - 15	Dec. - 9

The total number of full-time employment positions for 1994 is 160. This total divided by 12 represents an average of 13.3 full-time employment positions. Multiplied by 15 percent, the minimum increase in positions required to qualify for the credits is two.

160 / 12 = 13.3 x 15% (.15) = 2

After receiving an application and upon request, the Department of Revenue will help a business determine how many positions must be filled by what date. This allows the business to take full advantage of all available credits.

USING THE CREDIT

Once approved, a credit of $2,000 will be authorized for each position requested in the application. An Employee Credit Certificate will be sent to the business. AFTER the new positions are filled, the business may:

- Apply the credit against its B&O tax liability any time during the tax year. The credit used on each return should not be greater than the amount of B&O tax due on that return.

NOTE: This credit may not be used to offset sales or other taxes owed on the return, only the B&O tax.

- Use remaining credit against the B&O tax on the Combined Excise Tax Returns for later periods and/or years until the credit is exhausted.

When credit is used, a copy of the Employee Credit Certificate must be attached to the Combined Excise Tax Return. The credit should be entered on page one of the Combined Excise Tax Return, under the TOTALS section. The amount of the credit should also be entered on page two of the Combined Excise Tax Return under the CREDITS section, credit ID number 810.

VERIFICATION PROCESS

Businesses with approved applications must file a report with the Department of Revenue for each calendar year during which credit is claimed. The report must contain the information necessary to verify that the positions were created and filled for 12 consecutive months.

APPLICATION

Applications may be requested by calling the Department of Revenue's Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985).

The Department of Revenue must approve or deny applications within 60 days. If approved, an Employee Credit Certificate is issued to the business. If denied, the business may appeal the decision to the Department's Interpretation and Appeals Division.

After the application is approved, the Department will provide specific guidelines on what is required in these reports.

The B&O tax credit will be canceled if the required reports are not submitted or do not contain the necessary information. If credit is canceled, the business will be required to pay the tax, plus interest, immediately.

HIGH TECHNOLOGY SALES / USE TAX DEFERRAL / EXEMPTION

Businesses in the following research and development technology categories may be eligible for a sales/use tax deferral/exemption, if they start new research and development or pilot scale manufacturing operations, or expand or diversify a current operation by expanding, renovating or equipping an existing facility anywhere in Washington:

- Advanced computing
- Advanced materials
- Biotechnology
- Electronic device technology
- Environmental technology

REQUIREMENTS

Applications must be filed with the Department of Revenue BEFORE construction begins or machinery or equipment is acquired.

The investment project must be devoted to research and development or pilot scale manufacturing to qualify for the deferral/exemption. The investment must consist of machinery and equipment, new structures, and/or expansion or renovation to increase floor space or production capacity. The machinery and equipment may be used, but must be new to the state or to the business.

Qualified machinery and equipment means fixtures, equipment and support facilities that are an integral and a necessary part of pilot scale manufacturing or qualified research and development operation. Included are computers, software, data processing equipment, laboratory equipment, instrumentation, and other devices used in the process of experimentation to develop a new or improved pilot model, plant process, product, formula, invention or similar property.

If a building, machinery, or equipment is used partly for pilot scale manufacturing or qualified research, and partly for other purposes, the tax deferral will be apportioned on the basis of the cost of the area used for the qualified purposes.

REPAYMENT

No repayment of the taxes deferred under this program is required if the business uses the investment project for qualified research and development or pilot scale manufacturing.

If the investment project is used for any other reason at any time during the calendar year in which the investment is certified as operationally complete, or during the next seven calendar years, the deferred taxes must be repaid immediately according to a prorated schedule. Interest will be assessed on the payments.

The sales or use taxes on machinery or equipment used in pilot scale manufacturing that could have qualified for the sales/use tax exemption for manufacturers at the time of sale or first use do not have to be repaid.

APPLICATION

A project that has received any sales/use tax deferral under this or any other deferral program is not eligible for further deferral under this program. A research and development facility can get additional deferral certificates to upgrade to pilot scale manufacturing. Businesses may have more than one project that may qualify for deferral/exemptions under any of these programs.

Applications may be requested by calling the Department of Revenue's Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985).

The Department of Revenue must approve or deny applications within 60 days. If denied, the business may appeal the decision to the Department's Interpretation and Appeals Division.

Businesses approved for a deferral program receive a Tax Deferral Certificate from the Department to present to their contractors and vendors. This certificate allows the contractors and vendors to sell to approved businesses without charging retail sales tax (the seller must keep a copy of the certificate in its records).

HIGH TECHNOLOGY BUSINESS AND OCCUPATION TAX CREDIT - CHAPTER 82.63 RCW

An annual credit of up to $2 million is allowed for businesses that perform research and development in Washington in specified high technology categories AND meet the minimum expense requirements. The credit cannot exceed the amount of the business and occupation tax due for that calendar year. The rate for the credit is:

- Nonprofit corporation or association: .515 percent (.00515) of the expenses
- For profit businesses: 2.5 percent (.025) of the expenses

The technology categories are:

- Advanced computing
- Advanced materials
- Biotechnology
- Electronic device technology
- Environmental technology

REQUIREMENTS

The business' spending on research and development during the year the credit is claimed must exceed .92 percent (0.0092) of the business' taxable amount during that same year. Spending for research and development includes operating expenses, wages and benefits, supplies, and computer expenses directly incurred while conducting the research and development. For example: A business reports a taxable amount of $1 million on its Combined Excise Tax Return during a calendar year. This company must spend at least $9,200 ($1,000,000 x .0092 = $9,200) on qualified research and development during that same calendar year to claim the credit.

Businesses may estimate their annual spending on research and development for the year and thus take the credit throughout the year. If the spending does not reach the threshold, the business is required to pay the underpaid taxes, with interest, to the Department of Revenue.

A person performing research under contract has the option of using the greater of either its qualified research and development expenditures or 80 percent of the amounts received as compensation for conducting the qualified research and development.

Example A: A for profit business performs its own research and development and has research and development expenses of $10,000. To determine if the amount of expenses qualifies the business for a credit, the taxable income must be determined. To do this:

> Divide $10,000 by .92 percent ($10,000 / .0092 = $1,086,957). If the taxable amount is $1,086,957 or greater, the expenses qualify.

To determine the amount of credit:

> Multiply the expenses ($10,000) times the rate (2.5%). The amount of credit is $250. ($10,000 x 2.5% = $250).

To use the credit:

> If the business is a manufacturer, the B&O tax on the taxable amount is $5,500 ($1,086,957 x.00506 = $5,500). The credit of $250 should be subtracted from $5,500, leaving a B&O tax due of $5,250.

Example B: A for profit business performs its own research and development. It has a gross taxable income of $2,000,000. To determine if the business is eligible for the credit:

> It must have expenses that total $18,400 ($2,000,000 x .0092 = $18,400). If the expenses are $18,400 or more, the credit may be used.

To figure the credit:

> Multiply the expenses ($18,400) times the rate (2.5%). The amount of credit is $460. ($18,400 x .025 = $460).

To use the credit:

> The manufacturing B&O tax on $2,000,000 is $10,120 ($2,000,000 x .00506 = $10,120). The credit of $460 should be subtracted from $10,120, leaving B&O tax due of $9,660.

Example C: A nonprofit business performs its own research and development. It has a gross taxable amount of $1,000,000 and $8,000 in expenses. To be eligible for the credit, this business must have $9,200 of expenses. ($1,000,000 x .0092 = $9,200). It does not qualify. No credit can be used.

A person performing qualified research and development under contract for another, MAY ASSIGN all or a portion of the credit to the person paying for the research and development. Both businesses must meet the eligibility requirements. Assigned credits may not exceed the smaller of the business and occupation tax of the research business or $2 million.

When credit is used, a copy of the "Affidavit-Research and Development Credit" must be attached to the Combined Excise Tax Return. The credit should be entered on page one of the Combined Excise Tax Return, under the TOTALS section. The amount of the credit should also be entered on page two of the Combined Excise Tax Return under the CREDITS section, credit ID number 810.

APPLICATION

No preapproval from the Department of Revenue is required to use this credit.

The first time a business uses the high tech B&O tax credit, it must complete an initial survey and

mail it to the address shown on the bottom of the form. In addition, the business must complete the "Affidavit - Research and Development Credit" and attach it to the Combined Excise Tax Return each time the credit is used.

The forms may be requested by calling the Department of Revenue's Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985).

FOR MORE INFORMATION

If you have questions about deferrals in distressed areas or the B&O tax credit program under RCW 82.62, please write to:

Special Programs Division
Washington State Department of Revenue
Post Office Box 448
Olympia, Washington 98507-0448
FAX - (360) 586-2163.

You may also call the Department of Revenue's Special Program Division at (360) 753-3171 or (360) 664-2202.

Questions about the manufacturers exemption for machinery and equipment or the high technology programs should be referred to:

Taxpayer Information and Education
Washington State Department of Revenue
Post Office Box 47478
Olympia, Washington 98504-7478
FAX - (360) 664-0456

Or you may call the Taxpayer Information Center at 1-800-647-7706 (TTY 1-800-451-7985) for more information.

LAWS AND RULES

- Chapter 82.60 Revised Code of Washington (RCW) — Tax Deferrals for Investment Projects in Distressed Areas
- Chapter 82.61 Revised Code of Washington (RCW) — Tax Deferrals for Manufacturing, Research, and Development Projects (Repealed — no new applications taken)
- Chapter 82.62 Revised Code of Washington (RCW) — Tax Credits for Eligible Business Projects
- Chapter 82.63 Revised Code of Washington (RCW) — Business and Occupation Tax Credit and Retail Sales/Use Tax Deferral for High Technology Industries
- WAC 458-20-240 — Manufacturers, tax credits (Distressed Area Business and Occupation Tax Credits)
- WAC 458-20-24001 — Sales and use tax deferral — Manufacturing and research/development facilities in distressed areas
- WAC 458-20-24003 — High technology tax credit and deferral programs (In draft process)

The administrative rules (WAC) stated above are in the process of being drafted or revised based on the current legislation. We anticipate final adoption later this year.

Excise Tax Bulletin (ETB) 535.04.240 describes the formula to use to convert seasonal or part-time employment hours to full-time employment hours for the Distressed Area Business and Occupation Tax Credit.

The Department of Revenue will, upon request, provide copies of the laws and administrative rules.

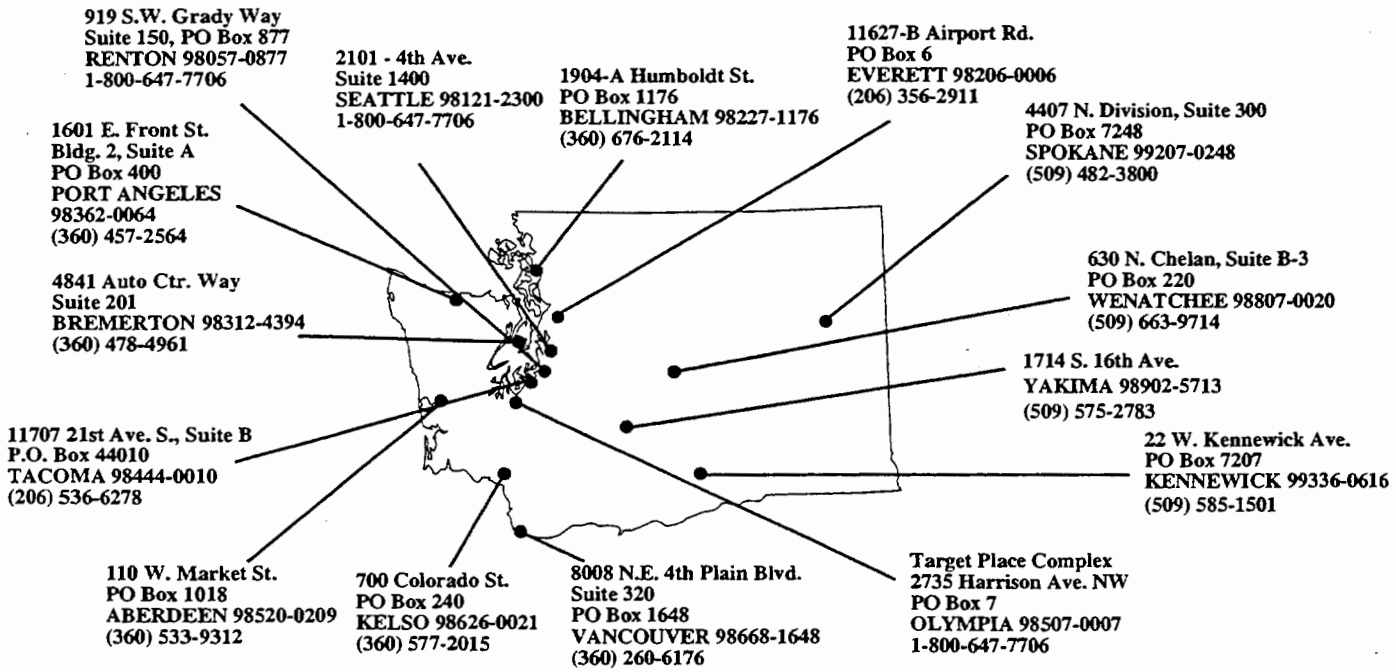
OTHER RESOURCES

The following agencies may provide additional information about incentives for businesses planning to start or expand operations in Washington:

- The Department of Community, Trade and Economic Development, Business Assistance Center - 1-800-237-1233 (within Washington), (360) 664-9501 or TTY (360) 586-4840.
- US Small Business Association - (360) 220-6520.
- Local Chambers of Commerce - see your local telephone book.

To inquire about the availability of this document in an alternate format for the visually impaired or a language other than English, please call (360) 753-3217. Teletype users please call 1-800-451-7985.

Department of Revenue Service Locations



Telephone Information Center
1-800-647-7706
TTY 1-800-451-7985

Internet address: http://www.wa.gov/DOR/wador.html

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FS0030 5/24/96